



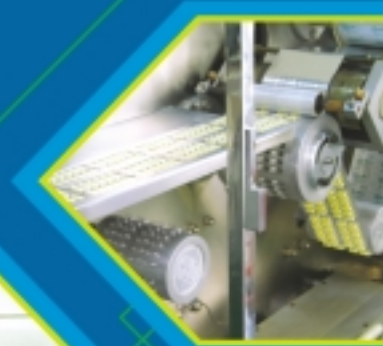
中生北控生物科技股份有限公司

BIOSINO BIO-TECHNOLOGY AND SCIENCE INCORPORATION*

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

Stock Code: 8247

QUALITY PRODUCTS CREATE HEALTHY LIFE



Annual Report 2005

Corporate Mission

Using Technology to make life more beautiful

Biosino, under the principle of "Innovating in good faith for mankind", is keen on promoting the study on protein science and the development of protein industry. Also, it is dedicated to taking the lead in manufacturing protein based products within and outside China, and to reach the mission of making life more beautiful with science and technology.



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "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 and no assurance is given that there will be a 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. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Biosino Bio-Technology and Science Incorporation (the "Company") collectively and individually accept full responsibilities, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 27 Chaoqian Road
Science and Technology Industrial Park
Changping District
Beijing
PRC

HONG KONG OFFICE

Room 4301, 43rd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

BOARD OF DIRECTORS

Chairman of the Board and a non-executive Director

Dr. Rao Zihe

Executive Directors

Mr. Wu Lebin

Mr. Zhu Yigui

Non-executive Directors

Mr. Hua Jiabin

Dr. He Rongqiao

Ms. Li Chang

Mr. Rong Yang

Ms. Yu Xiaomin

Independent Non-executive Directors

Prof. Yang Zhenhua

Dr. Hua Sheng

Mr. Chan Yiu Kwong

SUPERVISORS

Dr. Yan Xiyun

Mr. Wang Xin

Mr. Shao Yimin

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric CPA, CPA (U.S)

QUALIFIED ACCOUNTANT

Mr. Chan King Fai CPA

AUTHORISED REPRESENTATIVES

Mr. Wu Lebin

Mr. Tung Woon Cheung Eric

COMPLIANCE OFFICER

Mr. Wu Lebin

AUDITORS

Ernst & Young

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

PRINCIPAL BANKERS

Bank of Beijing (Zhongguancun Branch)

Industrial and Commercial Bank of China (Beijing Branch)

Corporate Information

INVESTOR AND MEDIA RELATIONS CONSULTANT

Porda International (Finance) PR Co., Ltd.

WEBSITE

<http://www.zhongsheng.com.cn>

<http://baiao.com.cn>

INFORMATION OF SHARE

Place of listing:	The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock code:	8247
Listing date:	27 February 2006
Number of H shares issued:	33,000,000 H shares
Nominal value:	RMB1.00 per H share
Stock short name:	Biosino Bio-Tec

INVESTOR ENQUIRY

Mr. Tung Woon Cheung Eric
Biosino Bio-Technology and Science Incorporation
Hong Kong office
Room 4301, 43rd Floor, Central Plaza,
18 Harbour Road, Wanchai
Telephone: (852) 2105 6337
Fax: (852) 2857 5084
Email: erictung@zhongsheng.com.cn

MEDIA ENQUIRY

Porda International (Finance) PR Co., Ltd.
7/F, CMA Building, 64 Connaught Road Central,
Hong Kong
Telephone: (852) 2544-6388
Fax: (852) 2544-6126

Group Profile

Biosino Bio-Technology and Science Incorporation (“Biosino Bio-Tec” or “the “Company”) is an excellent biotechnology company that engages principally in the research, manufacture and marketing of in-vitro diagnostic reagents which are designed to aid health care professionals in detecting various diseases in a precise manner. Moreover, Beijing Baiao Pharmaceuticals Co., Ltd. (“Baiao Pharmaceuticals”), a subsidiary of the Company, manufactures Lumbrokinase capsule, a Class II prescription drug which is used to treat cardio cerebrovascular diseases. These two kinds of products laid the solid business foundations of the Group in the medical industry in China.

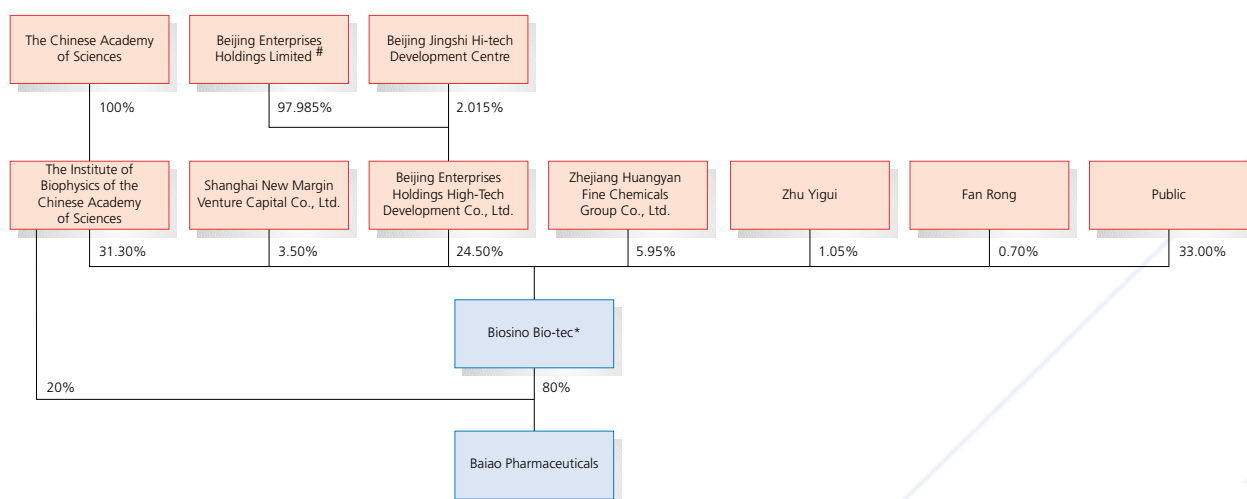
With up to 600 distributors, the Group has established an extensive sales network covering over 30 provinces and cities in the PRC. The products of the Group have successfully penetrated every niche of China’s hospital market and are well received at domestic hospitals. The Company ranked No. 1 in the conventional chemistry reagent market in China, with a market share of 18%. Lumbrokinase capsule is included in the National Catalog of Basic Medical Insurance Drugs (國家基本醫療保險藥品目錄) and Reimbursable Public Medical Drugs and Labour Insurance Catalogue in Beijing Municipality (北京市公費醫療、勞保醫療用藥報銷範圍), showing that the Group’s products are highly recognized in the market.



In addition, a number of management members of the Company are formerly or incumbent professors in universities or holding doctorate degrees. Not a few of our managers had work experience in the Institute of Biophysics, an organisation directly under the Chinese Academy of Sciences. The solid scientific research background of our management, while providing the research work of Biosino Bio-Tec with firm foundations, is also advantageous to the long-term business development of the Group. With even more new projects under research to be launched in the market in 2006, the Group expects a further enhancement of its strengths.

COMPANY STRUCTURE

As at 26 March 2006



* Listed on the Growth Enterprise Market of Hong Kong Stock Exchange

Listed on the Main Board of Hong Kong Stock Exchange

Financial Highlights

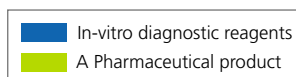
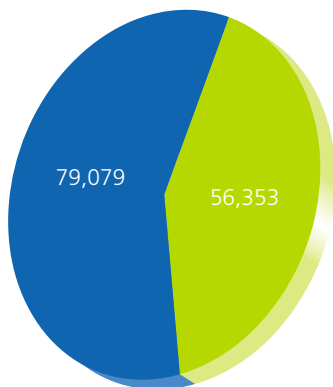
ACHIEVEMENTS

- Turnover for the year kept growing to RMB135 million, representing an increase of 11% from that of last year.
- Profit attributable to shareholders for the year amounted to RMB24.35 million, representing an increase of 2.2% from that of last year.
- The basic earnings per share was RMB0.35, representing an increase of 2.9% from that of last year.
- A final dividend of RMB0.10 per share is proposed for the year ended 31 December 2005.

1. Turnover by product

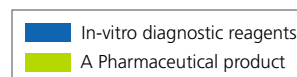
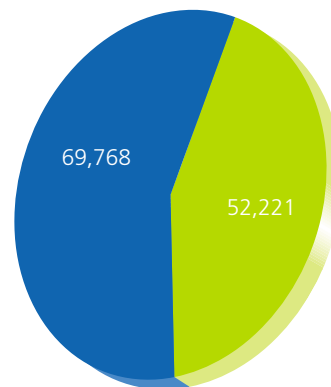
2005

(RMB'000)



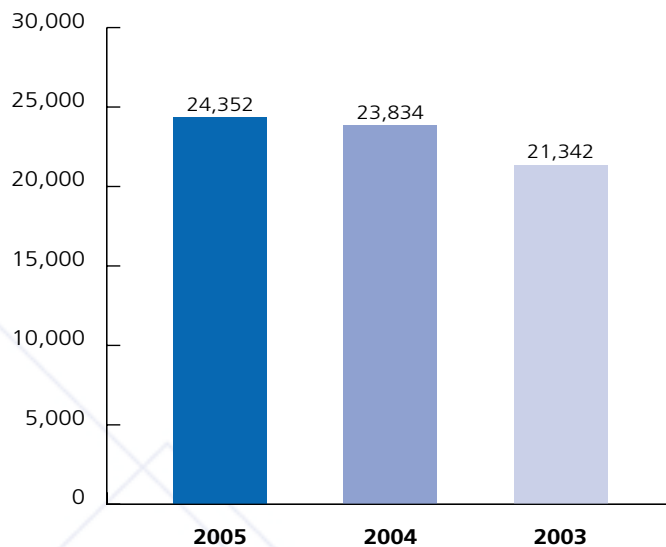
2004

(RMB'000)



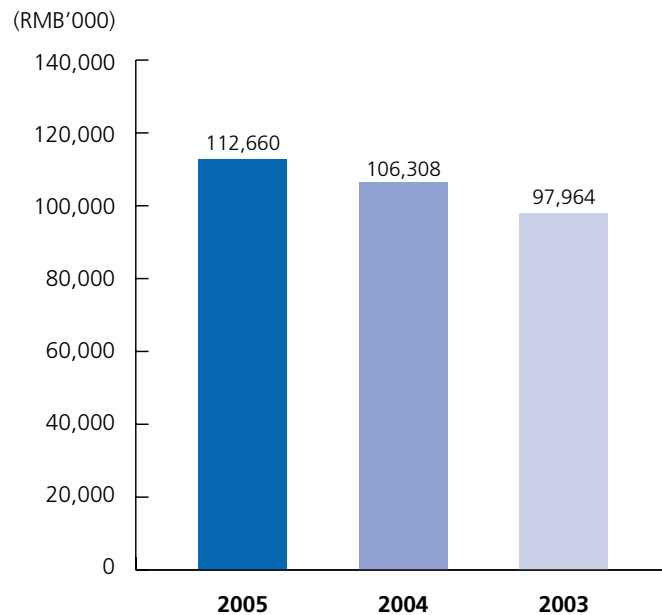
2. Profit attributable to shareholders

(RMB'000)



Financial Highlights

3. Shareholders' equity



RESULTS

	For the year ended 31 December	
	2005 RMB'000	2004 RMB'000
Turnover		
– Sale of in-vitro diagnostic reagents*	79,079	69,768
– Sale of a pharmaceutical product	56,353	52,221
	135,432	121,989
Research and development costs	7,531	6,762
Profit attributable to shareholders	24,352	23,834
Earnings per share – basic	RMB0.35	RMB0.34

* Including reagent ancillary products

Financial Highlights

BALANCE SHEET

	As at 31 December	
	2005	2004
	RMB'000	RMB'000
Total assets	211,057	179,618
In which: cash and cash equivalents	37,840	46,835
Total liabilities	88,114	63,601
Minority interest	10,283	9,709
Shareholders' equity	112,660	106,308

Chairman's Statement

TO CREATE A BRIGHT FUTURE AND VALUE

Dear shareholders,

With great pleasure and on behalf of the Board of Directors (the "Board"), I hereby present to you the first annual report of the Biosino Bio-Technology and Science Incorporation (hereinafter referred to as the "Company") and its subsidiary (hereinafter referred to as the "Group") for the year ended 31 December 2005. I would also like to express my best regards on behalf of the Group to the shareholders and all the staff.

The successful listing of the Group on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 February 2006 has marked a new stage of our business development. Our use of the proceeds to implement and fulfill our development plans have paved the way for the achievement of our long-term goal to become the top researcher and manufacturer of clinical biochemical diagnostic reagents and pharmaceutical products in the PRC.



Dr. Rao Zihe, Chairman of the Board

FINANCIAL RESULTS



Biosino Bio-Tec was listed on the Stock Exchange on 27 February 2006

I am pleased to report that the Group had made satisfactory achievements in turnover and profit for the year ended 31 December 2005. In the year under review, the turnover of the Group was approximately RMB135 million, representing an increase of 11% from that of last year; profit from operating activities was RMB30.92 million, representing an increase of 3% from that of last year; profit attributable to shareholders was RMB24.35 million, representing an increase of 2.2% from that of last year, the figures were in line with the projections of the prospectus, which stated as estimated consolidated profit attributed to shareholders of not less than RMB24 million; and basic earnings per share was

approximately RMB0.35, representing an increase of 2.9% from that of last year. Cash equivalents together with deposit balances at the balance sheet date was approximately RMB37.84 million. The Group enjoys a strong capital structure, providing a firm basis for its future development.

In the year, the Group was actively pursued to expand our existing business, more resources were invested to scale up our production capacity and upgraded our technology standards. Turnover from sale of in-vitro diagnostic reagents and a pharmaceutical product of the Group for the year were RMB79.08 million and RMB56.35 million respectively.

DIVIDENDS

In return for the support given to the Group by the shareholders and having regard to the Group's financial condition, liquidity, operating and capital requirements as well as the requirements for sustainable business development in the future, the Board recommended a final dividend of RMB0.1 per share for the financial year ended 31 December 2005. The Board is confident that given its strong financial condition and liquidity position, the Group is capable of maintaining the investment required for its continuing development. The Group will make its best endeavours to contribute positive returns to its investors.

Chairman's Statement

BUSINESS REVIEW

2005 was full of challenges to the Group. To achieve its goal and implement its development plan, the Group made active preparations in the year to seek listing in Hong Kong with an aim to become one of the leading developers and manufacturers of in-vitro diagnostic reagents and pharmaceutical products in China.

With high profitability and great development potentials, modern clinical diagnostic industry, as an emergent high-tech industry characterised by rapid technology upgrades, has attracted an increasing number of enterprises to join the field, and the competition in the PRC's biopharmaceutical industry was intensified as a result. Moreover, since its accession to the World Trade Organisation, China has agreed to lower its tariffs against imports and allow free entry of multinational biopharmaceutical enterprises into the Chinese market, thus adding to the intense competition of the industry.

It is gratifying that the Group has adhered to its formulated development strategy to focus on the research, development, manufacture, and marketing of protein-based in-vitro diagnostic reagents and pharmaceutical products, in order to provide the market with clinical in-vitro diagnostic reagents and pharmaceutical products of higher quality and medical value. At the same time, the Group has brought its advantages into full play by combining its talent power with research strengths to further expand its market and maintain a sustainable business development in the face of keen market competition. According to a research report "Clinical Diagnostics in China" published by Kalorama Information (an authority of market survey on biochemical products), the Group ranked No. 1 in the conventional chemistry market in the PRC with an 18% market share.

To go in step with our business development, the Group has constructed a new manufacturing plant in the Science and Technology Industrial Park in Changping District, Beijing. The production facilities for diagnostic reagents were relocated to the new manufacturing plant at the end of March 2005 and commenced its operation in April 2005. The construction and installation of production facilities for Lumbrokinase capsule in Changping District was also completed at the end of February 2006 and commenced its operation. With the new manufacturing plant, the production capacity of diagnostic reagents and Lumbrokinase capsules will be increased by approximately 4 and 3.6 times respectively. The new manufacturing plant has been constructed in accordance with GMP standards and accredited with the ISO certification. Also, environmental purification and ERP management system have been adopted for the new manufacturing plant to ensure the quality of the products. Such initiatives will surely help the Group to form a solid foundation on which to capture the opportunities emerging from the rapidly growing pharmaceutical market in the PRC.

During the year, the Group has 56 products on the market, including 30 in-vitro diagnostic reagents developed by ourselves as well as 26 reagents and a pharmaceutical product franchised by the Institute of Biophysics. At present, we are actively developing diagnostic reagents and pharmaceutical products to be used for the tests and treatment of cardio-cerebral vascular diseases.

Chairman's Statement

BUSINESS REVIEW *(continued)*

In order to further enhance its reputation, the Group has been proactively participating in and carrying out marketing activities. The Group held various conferences and exhibitions to promote its products and focused its efforts on management of distribution channels. These activities included the "China Cerebral Vascular Disease Prevention Consultation Conference" (《中國腦血管病防止指南》啟動會) hosted by the Chinese Medical Association in Beijing in February 2005, the "Clinical Trial Standards and National Enzyme Reference Conference" (「臨床試驗標準及國家酶參考研討會」) hosted by the Ministry of Health in February 2005, and the "Cooperative of Lanzhou Examination Society and Biosino Bio-Technology and Science Incorporation" (「蘭州檢驗界與中生北控公司聯誼會」) jointly organised by the Company and the Gansu Province Clinical Examination Centre (「甘肅省臨床檢驗中心」). During the year, the Group also hosted the Baiao Lumbrokinase Forum in Beijing and participated in conferences hosted by the China Association for Prevention of Cerebral Vascular Diseases of the Ministry of Health (衛生部中國預防腦血管疾病協會) in Beijing and Chengdu.

Satisfactory result has also been achieved in the development of marketing network. The Group has established its sale and distribution network in over 30 provinces and cities in the PRC. Moreover, Lumbrokinase capsules and diagnostic reagents have been widely marketed to over 12,000 hospitals in the PRC, through more than 150 distributors and a sale network comprising over 100 medical representatives, and through more than 450 distributors respectively.

Meanwhile, the Group has been dedicated to the upkeep and upgrade of its corporate governance to ensure all decisions made by the Group are in the interests of the shareholders as a whole and generate the best returns for them.

PROSPECT

The pharmaceutical market is moving into a stage of rapid progress, and the PRC has become the fastest growing diagnostic market in Asia. Rapid economic development improves the people's living standard and heightens their health consciousness. People attach more importance to medical insurance and increase their expenses on medical and healthcare service. Together with the issues associated with an increasing and aging population, the sharp demand for medical and disease testing products has brought boundless business opportunities to the Group.

Looking into the future, the Group will place more resources on the research and development of new products, and will upgrade its productivity, optimize its production facilities, to get hold of the enormous room for development in the PRC's pharmaceutical market. With our strong scientific research background and our rich industry and management experience, the Group is confident of its future development. With the commencement operation of the new production facilities in Changping District, the Group possesses even more reliable and advanced production facilities to meet the need for future development.

On the principle of "Innovating in good faith for mankind", the Group will continue to do its best to make progress. Also, the Group will offer high-quality, diversified products that meet market demand. Furthermore, the Group will expand its business to overseas market, enlarge its market coverage and bring satisfactory returns to its shareholders.

Chairman's Statement

ACKNOWLEDGEMENT

Finally, on behalf of the Board, I would like to extend my sincere thanks to all shareholders and business partners of the Group for their unwavering support, and to the entire staff of the Group for their valuable contribution.

By the order of the Board

Dr. Rao Zihe

Chairman

Beijing, the People's Republic of China

26 March 2006

Management Discussion and Analysis

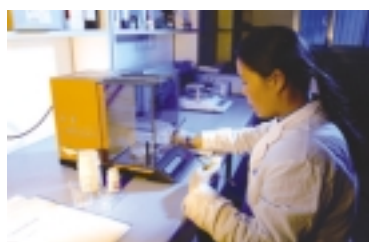
BUSINESS ENVIRONMENT

In 2005, the economy in China continued to thrive. The growing population, aging problem, rising pharmaceutical consumption and the emergence of new medicines and diseases have facilitated the rapid development of the medical and pharmaceutical industry in China, making the country one of the fastest growing diagnostic reagent markets in Asia. As a leading in-vitro biochemical diagnostic reagents and pharmaceutical product manufacturer in China, the Group has grasped the golden business opportunity and kept expanding its business to achieve a steady income growth.

BUSINESS REVIEW

Turnover

Currently, the Group's major products include i) 56 types of SFDA-approved in-vitro diagnostic reagents (including 44 types of biochemical in-vitro diagnostic reagents and 12 types of immuno in-vitro diagnostic reagents) and ii) Lumbrokinase capsule, a SFDA-approved Class II prescription new drug. In 2005, the Group's consolidated turnover amounted to approximately RMB135 million, representing an increase of 11% from that of last year, primarily attributable to an increase in the sale of in-vitro diagnostic reagents and Lumbrokinase capsules. In particular, the turnover of in-vitro diagnostic reagents increased by approximately RMB9.3 million or 13.3% to RMB79.08 million from that of last year, accounted for 58.4% of the total turnover. In terms of pharmaceutical product, the sale of Lumbrokinase capsules continued to grow and offset the impact of price fall brought about by the severe price competition, as a result, the turnover increased by 7.9% to RMB56.35 million in 2005.



Research and Development Costs

The Group completed a total of 10 research projects, including a project on cholesterol liquid single reagent, in 2005. It also commenced a series of research projects in respect of reagent as well as pre-clinical researches of Lumbrokinase injection and alprostadiol injection. Total research and development costs for the year amounted to approximately RMB7.53 million, representing an increase of approximately 11.4%. The research and development costs for in-vitro diagnostic reagents were approximately RMB4.26 million, representing an increase of approximately 10.2% from that of last year. The research and development costs for pharmaceutical product were approximately RMB3.27 million, representing an increase of approximately 12.9% from that of last year. The increase in research and development costs was mainly attributable to the Group's focused research effort as well as the expanded project commencements in research and development.

Profit Attributable to Shareholders

The Group's profit attributable to shareholders for 2005 was approximately RMB24.35 million, representing an increase of 2.2% from that of last year. Despite the decrease in selling price of its pharmaceutical product and an one-off transportation and administrative expenses for the relocation of the production line of in-vitro diagnostic reagents to the new manufacturing plant in the year, the Group managed to achieve a steady growth in its results for the year 2005 due to the increase in turnover from last year.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Production Facilities

The Group's new headquarters are located in the Science and Technology Industrial Park, Changping District, Beijing. The new manufacturing plant has an aggregate site area of approximately 48,767 sq.m. and a total planned gross floor area of approximately 22,450 sq.m. The manufacturing plant is divided into two independent sections, one for the manufacturing of in-vitro diagnostic reagents and the other for the manufacturing of pharmaceutical products. To further enhance its production capacity, the Group relocated its production line of in-vitro diagnostic reagents to the new manufacturing plant in March 2005. The production line of the pharmaceutical products has also been relocated from the premises rented from the IBP to the new manufacturing plant at the end of February 2006.



PROSPECT AND FUTURE OUTLOOK

Thanks to the rapid economic growth of China, the demand for diagnostic and pharmaceutical products in China has increased substantially following the increase in people's income, rising living standard and health awareness, longer life expectancy and aging population. Such changes are reflected in the higher expenses on public health. The expenses for public health kept increasing in recent years. Medicines and medical services have taken up a higher proportion in the overall living expenses, where a compound annual growth rate of over 10% has been recorded. This growing trend is expected to continue.

The PRC Government proactively promotes health awareness and stresses on social medical insurance by implementing policies such as the Basic Medical Insurance Programme to encourage employers and employees to establish a comprehensive medical insurance system. In addition, the State Economic and Trade Commission has highlighted biotechnology as the future focus of China's pharmaceutical industry. It is expected that these policies will further stimulate the growth and facilitate the development of the pharmaceutical industry as well as bring huge business opportunities to the industry.

As a leading enterprise of diagnostic reagents and pharmaceutical product in China, the Group will continue to expand its business, grasp the enormous development opportunities and respond to the market promptly with its strengths, strong research and development capability and solid business foundation. It is believed that the Group will capture even more business opportunities in the China pharmaceutical market and generate greater wealth for its shareholders.

Management Discussion and Analysis

GEARING RATIO

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 0.78 times as at 31 December 2005 (2004: 0.60 times).

CAPITAL STRUCTURE

During the year under review, there has been no change in the capital structure of the Company and the share capital comprises ordinary shares only. Subsequent to the balance sheet date, on 27 February 2006, the Company undertook a placing of 33,000,000 ordinary H shares in total, comprising 30,000,000 new H Shares and 3,000,000 H shares converted from old domestic shares of the Company, at a placing price of HK\$2.0 per H share with a nominal value of RMB1.00 for listing on the GEM (the "Placing") of the Stock Exchange.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flows.

As at 31 December 2005, the Group has cash and cash equivalents of approximately RMB37.84 million, as compared to approximately RMB46.84 million of the previous year.

FOREIGN CURRENCY RISK

The Group's business are located in Mainland China and all transactions are conducted in RMB, except for the fact that the Group occasionally purchases equipment from overseas countries for resale in Mainland China. As the purchase amount was not significant, fluctuations of the exchange rates of RMB against foreign currency is not expected to have significant impact to the results of the Group.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2005, the Group had the following material pledged assets:

1. The Group's bank loans are secured by the Group's land in Mainland China and building erected thereon, with an aggregate carrying value of approximately RMB35,500,000 at the balance sheet date.
2. A bank balance of RMB317,000 of the Group was pledged to a bank as at 31 December 2005 for an irrevocable letter of credit of the same amount issued for the purchases of raw materials.

As at 31 December 2004, no assets of the Group were pledged.

Management Discussion and Analysis

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no any contingent liabilities.

EMPLOYEES

As at 31 December 2005, the Group had a total of 407 full-time employees (2004: 357 employees) based in Hong Kong and China. The total staff costs of the Group (including the Directors' remunerations) for the year ended 31 December 2005 amounted to approximately RMB22.73 million (2004: RMB26.69 million). The Group fixes and reviews the emoluments of its staff and directors based on qualification, experience, performance, and market rates, so as to maintain the remunerations of its staff and directors at a competitive level. The Group participates in various defined contribution retirement plans and insurance schemes in compliance with its statutory obligations under the law and regulations of China and Hong Kong. The Directors believe that employees are one of the most valuable assets of the Group which contributed significantly to the success of the Group. The Group recognises the importance of staff training and hence provides regular training to the Group's staff members to enhance their technical and product knowledge. Other than the company secretary and the qualified accountant, the employees of the Group are all stationed in China.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors confirmed that they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

ACTUAL BUSINESS DEVELOPMENT AND BUSINESS OBJECTIVES

According to the GEM Listing Rules, the Company is required to prepare a comparison of its actual business development for the six months ended 31 December 2005 and the business objectives for the same period as set out in the Prospectus. However, since the Prospectus was issued after the balance sheet date on 16 February 2006, the Company will review its business objectives and strategies on an ongoing basis and prepare a report in the next period of review for the six months ended 30 June 2006.

Corporate Governance Report

INTRODUCTION

The Code on Corporate Governance Practices was effective for accounting periods commencing on or after 1 January 2005. The Company puts strong emphasis on the superiority, steadiness and rationality of corporate governance. However, in the opinion of the Board, because of the Company was not listed throughout the financial year ended 31 December 2005, therefore, the Company was not fully complied with the code provisions in the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the GEM Listing Rules during the year 2005. Subject to the deviations as disclosed on this report, the Company has complied with all the code as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

THE BOARD OF DIRECTORS

The Board of directors currently comprises eleven directors, including the chairman, executive directors, non-executive directors, and independent non-executive directors. The board of directors is mainly accountable to the shareholders. It is also in charge of the management, business, strategy, annual and interim results, risk management, major acquisitions, disposals and capital transactions and other major operation and financial aspects of the Group. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Report of the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

Dr. Rao Zihe, acting as chairman and non-executive director, keeps a close relationship with all directors to ensure steady exchange of information with them in the course of operation and decision-making.

Two executive directors are in charge of different areas of duty. Mr. Wu Lebin is responsible for the management of the Group's day-to-day operation, such as production, operation, and financial management. Mr. Zhu Yigui is appointed as technical consultant of the Company.

The Board includes six influential non-executive Directors. Non-executive Directors are independent of the management and in possession of solid experience in the business of the industry. These non-executive Directors provide significant opinion and contribution to the development of the Company during the year 2005.

The Board fulfilled the minimum requirement of appointing at least three independent non-executive directors, each with a term of three years, as required by the GEM Listing Rules. They have professional knowledge and extensive experiences in science and technology, medicine, and economy, it also met the requirement of having one independent non-executive director with appropriate professional qualification or professional accounting or financial management expertise. They are able to fully represent the interests of the shareholders.

Corporate Governance Report

THE BOARD OF DIRECTORS *(continued)*

The Company considers that all independent non-executive directors are independent of the Company.

During 2005, the board of directors held totally three meetings, one of which was a regular meeting. The average attendance rate reached 92.6%. The details of the board of directors' meetings and the attendance rate of director are as follows:

Date of board of directors' meeting	Total number of directors	Number of directors present	Attendance rate
16 March 2005	9	9	100%
5 April 2005	9	8	88.9%
6 July 2005	9	8	88.9%

Name of directors	Attendance at meeting of board of directors	Attendance rate
Dr. Rao Zihe (Chairman and non-executive director)	3 at 3 meetings	100%
Mr. Wu Lebin (Executive director)	3 at 3 meetings	100%
Mr. Zhu Yigui (Executive director)	3 at 3 meetings	100%
Mr. Hua Jiabin (Non-executive director)	3 at 3 meetings	100%
Mr. He Rongqiao (Non-executive director)	3 at 3 meetings	100%
Ms. Li Chang (Non-executive director)	3 at 3 meetings	100%
Mr. Rong Yang (Non-executive director)	3 at 3 meetings	100%
Ms. Yu Xiaomin (Non-executive director)	2 at 3 meetings	66.7%
Mr. Miao Wenliang (Non-executive director, resigned on 20 November 2005)	2 at 3 meetings	66.7%

Three independent non-executive directors of the Company have been appointed since 5 April 2005. As the Company was not listed on the GEM in 2005, these three independent non-executive directors were not required to attend the board meeting held in 2005 after their appointment. The three non-executive directors have duly performed their duties since the listing date, and have reviewed the results for the year ended 31 December 2005 as required by the GEM Listing Rules.

CHAIRMAN AND PRESIDENT

As the leader of the Board, Dr. Rao Zihe, the Chairman is responsible for the approval and supervision of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the management. Mr. Wu Lebin, the President is responsible for the day-to-day operations of the Group. The roles of the Chairman and President should be separate and should not be performed by the same individual.

Corporate Governance Report

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 7 to the financial statements.

AUDIT COMMITTEE

In compliance with the Code of Best Practice as set out in Appendix 15 to the GEM Listing Rule, the board of directors approved the establishment of the audit committee on 10 February 2006 comprising three non-executive directors, namely Prof. Yang Zhenhua, Dr. Hua Sheng and Mr.Chan Yiu Kwong. Dr. Hua Sheng is the chairman of the audit committee.

The duties of the audit committee include:

1. Supervising the accounting and financial reporting procedure and auditing the financial statements of the Group;
2. Studying carefully all proceedings proposed by qualified accountants, compliance officers and auditors of the Group;
3. Examining and monitoring the internal control system adopted by the Group;
4. Reviewing the relevant work of the Group's external auditor.

Members of the audit committee are highly responsible and will speak out. They have contributed their times and efforts to ensure a more effective and objective board of directors. No audit committee meeting was held during the year 2005 because the Company was listed on 27 February 2006 and the duties of the audit committee was carried out immediately after listing.

The Audit Committee has reviewed the annual results, financial position, internal control and the management issues of the Company for the year ended 31 December 2005.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, auditors' remuneration for audit services is approximately RMB600,000. Other than audit, no services such as due diligence and other advisory services were provided.

Corporate Governance Report

STOCK EXCHANGE OF THE DIRECTORS AND SENIOR MANAGEMENT

On 10 February 2006, the Group has adopted, by way of a resolution of the board of directors, a code of dealing in the Company's securities by directors, which was formulated in accordance with Rules 5.48 to 5.67 of the GEM Listing Rules for the purpose of setting out the standards adopted by the Group for assessing the conduct of directors in their dealings in the securities of the Group. Any violation of this code will be regarded as a violation of the Listing Rules. Directors have to comply with the Listing Rules with their best effort.

REMUNERATION COMMITTEE

The remuneration committee of the Group was established in accordance with the Code as set out in Appendix 15 to the GEM Listing Rules on 10 February 2006. The main role and function included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

Members of the remuneration committee include an independent non-executive director, Dr. Hua Sheng, and two independent non-executives, Prof. Yang Zhenhua and Mr. Chan Yiu Kwong, with Dr. Hua Sheng as the Chairman. No remuneration committee meeting was held during the year 2005 because the Company was listed on 27 February 2006 and the duties of the remuneration committee was carried out immediately after listing.

COMPLIANCE ADVISER

As updated and notified by the Company's compliance adviser, Partners Capital International Limited (the "Compliance Adviser"), none of the Compliance Adviser, or its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2005 pursuant to Rule 6.36 of the GEM Listing Rules.

Pursuant to an agreement dated 27 February 2006 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Company's compliance adviser for the period from 27 February 2006 and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year ending 31 December 2008 or until the agreement is terminated in accordance with the terms and conditions set out therein.

Corporate Governance Report

DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 38.

The Directors have confirmed that the preparation of the Group's financial statement is in compliance with the relative regulations and applicable accounting standards. The Directors also warrant that the Group's financial statement will be distributed in due course.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. The Company convened meeting periodically to discuss financial, operational and risk management control. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the Audit Committee and the Board will perform quarter review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify.

RELATIONSHIP WITH THE INVESTORS

The Group has made great efforts to establish a long-term relationship with shareholders and investors with an open-mind, an adherence to the principles of integrity, regularity, and high transparency, and disclose the required information in compliance with GEM Listing Rules. Since the commencement of its preparation for listing, the Group has kept enhancing its transparency to provide investors precise and real-time information through various communication channels, including investor presentation, one to one conversations, road shows, seminars, press conferences, press releases, and contacts with media, analysts, and fund managers. Every year, the directors hold the annual general meeting to meet the shareholders and respond to their questions.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture, sale and distribution of in-vitro diagnostic reagent products and a pharmaceutical product. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 87.

The directors recommend the payment of a final dividend of RMB0.10 per registered share in respect of the year to shareholders on the register of members on 28 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

USE OF PROCEEDS FROM THE COMPANY'S PLACING OF H SHARES

The proceeds from the Company's placing of new H shares at the time of its listing on The Hong Kong Stock Exchange Limited (the "Stock Exchange") in February 2006, after deduction of issuance expenses, amounted to approximately HK\$47,300,000 (the "Net Proceeds"). As at the date of this report, the Net Proceeds have not been used by the Company.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last three financial years is set out on page 88. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

There were no movements in either the Company's registered or issued capital during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the Company Law of the PRC which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, in accordance with the Company Law of the PRC, an amount of approximately RMB70,000 standing to the credit of the Company's capital reserves account, and an amount of approximately RMB13,443,000 standing to the credit of the Company's statutory reserve funds (details of which are set out in note 11 to the financial statements), as determined under the PRC accounting standards and regulations, were available for distribution by way of future capitalisation issue. In addition, the Company had, as stated in note 24(b) to the financial statements, retained profits available for distribution of approximately RMB7,680,000 as at 31 December 2005.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report are as follows:

Chairman and non-executive director:

Dr. Rao Zihe

Executive directors:

Mr. Wu Lebin

Mr. Zhu Yigui

Non-executive directors:

Mr. Hua Jiabin

Dr. He Rongqiao

Ms. Li Chang

Mr. Rong Yang

Ms. Yu Xiaomin

Independent non-executive directors:

Prof. Yang Zhenhua (Appointed on 5 April 2005)

Dr. Hua Sheng (Appointed on 5 April 2005)

Mr. Chan Yiu Kwong (Appointed on 5 April 2005)

Supervisors:

Dr. Yan Xiyun

Mr. Wang Xin

Mr. Chen Aijun (Resigned on 4 April 2005)

Mr. Shao Yimin (Appointed on 4 April 2005)

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules, and as at the date of this report the board still considers each of them to be independent.

EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

Details of emoluments of directors and highest paid individuals are set out in notes 7 and 8 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out on pages 30 to 37 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors (including the independent non-executive directors and the supervisors) has entered into a service contract with the Company for a term of three years commencing from 27 February 2006. None of the directors or the supervisors had entered into or is proposed to enter into, any service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, its subsidiary or fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Immediately following completion of the Placing, the interests and short positions of the directors in the shares and underlying shares of the Company or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and to the Stock Exchange, will be as follows:

Long position in issued shares of the Company

Name of director	Nature of interest	Number of domestic shares held	Percentage of domestic shares	Percentage of total registered capital
Zhu Yigui (<i>Note</i>)	Personal	1,050,263	1.5	1.05

Note: Zhu Yigui is the registered holder and beneficial owner of the 1,050,263 Domestic Shares.

Save as disclosed above, immediately following completion of the Placing, none of the directors or supervisors had any interests or short positions in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under the SFO), or will be required pursuant to the required standard of dealings by directors as referred to in Rules 5.46 to 5.68 of the GEM Listing Rules or Section 352 of the SFO to be entered in the register of interests referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the directors or supervisors or their respective associates (as defined under the GEM List Rules) was granted by the Company or its subsidiary any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights as at 31 December 2005.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As far as is known to any directors or supervisors of the Company, after the completion of the Placing, the following persons (other than directors or supervisors of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register to be kept under Section 336 of the SFO:

Long positions in shares

Name of person	Nature of interest	Total number of domestic shares	Percentage of domestic shares	Percentage of total register capital
Institute of Biophysics of the Chinese Academy of Sciences ("IPB")	Domestic Shares	31,308,576	44%	31.3%
Beijing Enterprises Holdings High-Tech Development Co., Ltd. ("BEHT")	Domestic Shares	24,506,143	35%	24.5%
Beijing Enterprises Holdings Limited ("BEHL") (Note 1)	Domestic Shares	24,506,143	35%	24.5%

Note:

- 1 These domestic shares are registered in the name of BEHT. As BEHL is entitled to exercise or control the exercise of one-third or more of the voting rights at the general meetings of BEHT, for the purpose of the SFO, BEHL is deemed to be interested in all the domestic shares in which BEHT is interested.

Save as disclosed above, as far as is known to any directors or supervisors of the Company, immediately following completion of the Placing, no person, other than the director of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has met the code provisions set up in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules after the completion of the Placing. Details of which are set out in the Corporate Government Report on page 17 to 21 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

COMPLIANCE ADVISER'S INTEREST

As updated and notified by the Company's compliance adviser, Partners Capital International Limited (the "Compliance Adviser"), none of the Compliance Adviser, or its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2005 pursuant to Rule 6.36 of the GEM Listing Rules.

Pursuant to an agreement dated 27 February 2006 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Company's compliance adviser for the period from 27 February 2006 and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year ending 31 December 2008 or until the agreement is terminated in accordance with the terms and conditions set out therein.

AUDIT COMMITTEE

The Company has established an audit committee on 10 February 2006 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee's primary duties are the review and supervision of the Company's financial reporting procedures and internal control systems. The audit committee consists of the three independent non-executive directors, namely Prof. Yang Zhenhua, Dr. Hua Sheng and Mr. Chan Yiu Kwong. The Group's audited annual results have been reviewed by the audit committee of the Company.

POST BALANCE SHEET EVENT

On 27 February 2006, the Company undertook a placing of 33,000,000 ordinary H shares in total, comprising 30,000,000 new H Shares and 3,000,000 H shares converted from old domestic shares of the Company, at a placing price of HK\$2.0 per H share for listing on the GEM (the "Placing"). Based on the above, the net proceeds raised from the Placing, after deduction of related issue expenses, amounted to approximately HK\$47,300,000 (approximately RMB49,192,000) attributable to the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Rao Zihe
Chairman

Beijing, the People's Republic of China
26 March 2006

Report of the Supervisory Committee

To all shareholders,

Since the incorporation of the Company, the Supervisory Committee has carried out its duties in accordance with the Company's Articles of Association and relevant requirements. It has performed effective supervision, through the inspection of relevant documents and attending meetings of the Board of Directors, on resolutions made by the Board of the Directors to ensure that they are in compliance with the relevant laws and regulations, the Company's Articles of Association and in the best interests of the shareholders. Such resolutions are made in a manner to ensure the shareholders' interests and long-term development of the Company.

The Supervisory Committee is in the opinion that the decision-making process of the Company is in compliance with the Company's Articles of Association and operating norms. The directors and the senior management observed their fiduciary duties and worked diligently and legally. The Supervisory Committee is not aware that the Directors and the senior management of the Company acted in breach of the laws and regulations and the Articles of Association of the Company or against the interests of the shareholders.

The Supervisory Committee considers that the Company's 2005 financial statements reflected a true and fair view of the financial position and operating results of the Company. The unqualified opinion expressed in the auditors' report issued by Ernst & Young is objective and fair.

The Supervisory Committee is of the opinion that the connected transactions between the Company and its connected persons were conducted at fair market price without prejudice to the interests of the Company and its minority shareholders.

In the opinion of the Supervisory Committee, the Company has achieved satisfactory results in 2005. It is expected that the Company will spare more efforts in getting continuous revenue growth, exercising better cost control and risk management. In 2006, the Supervisory Committee will continue to comply with the Company's Articles of Associations and relevant requirements and apply the proceeds from the Company's recent initial public offering in accordance with the disclosure in the Company's prospectus in order to safeguard the interests of the shareholders and fully perform its duties.

By Order of the Supervisory Committee

Yan Xiyun

Chairman of the Supervisory Committee

Beijing, the People's Republic of China

26 March, 2006

Directors, Supervisors and Senior Management

DIRECTORS

Chairman of the Board

Dr. Rao Zihe (饒子和博士), aged 55, is the Chairman and a non-executive Director of the Company. Dr. Rao was nominated by the Company as the director of Baiao Pharmaceuticals on 12 September 2003. Dr. Rao graduated from the Biology School of the CAS with a master's degree in science in 1983 and from the University of Melbourne with a Ph.D. degree in 1991. Dr. Rao was engaged in research work in the Laboratory of Molecular Biophysics, Oxford University from 1989 to 1996. Dr. Rao was accredited as the academican of the CAS in 2003. Dr. Rao was a Cheung Kong scholar under the "Cheung Kong Scholars Programme" (長江學者獎勵計劃) recognised by the Ministry of Education of the PRC (中華人民共和國教育部) and in 2004, Dr. Rao was awarded as the honourable Cheung Kong scholar (榮譽長江學者). In the same year, Dr. Rao was also accredited as the academican of the Third World Academy of Science (第三世界科學院院士). Dr. Rao is currently the director-general of the IBP; the vice-dean of the School of Life Science and Medical Research Centre (生命科學與醫學研究院) of Tsinghua University (清華大學); the principal investigator of the Chinese National Human Genome Center, Beijing (北京國家人類基因組北方研究中心); the director of the Chinese Biophysics Society (中國生物物理學會); the chairman of the Molecular Biophysics Research Committee (分子生物物理專業委員會); the president of the Chinese Crystallographic Society (中國晶體學會); the director of the State Key Laboratory of Biomacromolecules (生物大分子國家重點實驗室); the committee member of the Academic Committee of the Tumor related Genes and Anti-tumor Drug Research and Development Education Division (腫瘤相關基因與抗腫瘤藥物研究教育部重點實驗室學術委員會). He was appointed as a member of the expert board committee of the national "863" project biology and modern agricultural technology expert board committee (國家八六三計劃生物和現代農業技術領域專家委員會) in 2004. For many years, Dr. Rao has been involved in the study of the three-dimensional structures of significant proteins related to human diseases or with important physiological functions, as well as in proteomics and innovative drug design. His publication records include more than 130 academic papers published in journals such as "Cell", "Nature", "Journal of Molecular Biology", "Journal of Biological Chemistry" and "Journal of the American Chemistry Society". Dr. Rao was nominated by the IBP as its representative on the Board. Dr. Rao joined the Company in September 2003.

Directors, Supervisors and Senior Management

Executive Directors

Mr. Wu Lebin (吳樂斌先生), aged 43, is an executive Director, the general manager of the Company and the director of Baiao Pharmaceuticals. Mr. Wu is responsible for the management and supervision of the Group's daily activities such as production, operations and financial management. From 2001 to 2003, Mr. Wu also served as the vice chairman of the Company. In September 2003, Mr. Wu resigned from his position as vice chairman of the Company due to rotation of senior management in accordance with the Company's Articles of Association and was then appointed as the president of the Company. Mr. Wu has also been the director of Baiao Pharmaceuticals since 2002. Mr. Wu possesses over 15 years of experience in science development, administration and corporate management. Mr. Wu graduated from the Jiangxi Medical College (江西醫學院) with a bachelor's degree in medicine in 1983 and from the CAS with a master's degree in science in 1988. Mr. Wu also completed an EMBA study program jointly offered by the University of Wisconsin-Madison of United States and the CAS in 2002. Prior to joining the Group, Mr. Wu served as the deputy director of the IBP from 1998 and was primarily responsible for technology development, corporate organisational reform (企業改制) and labour education. However, following Mr. Wu's appointment as general manager of the Company in September 2003, Mr. Wu was no longer in charge of the operations and management of the IBP and eventually his tender of resignation of his positions in the IBP was officially approved by the CAS in June 2005. Mr. Wu joined the Company in April 2001.

Mr. Zhu Yigui (朱以桂先生), aged 68, is an executive Director and the vice chairman of the Company, and was formerly the general manager of the Company from 2001 to 2003. Mr. Zhu is responsible for the overall supervision of the operations and management of the Company. Mr. Zhu graduated from Peking University (北京大學) with a bachelor's degree in biochemistry in 1964. Mr. Zhu was awarded an honour certificate from the CAS in December 1996 to recognise his outstanding contribution during the Eighth Five-Year Plan. Mr. Zhu possesses over 40 years of experience in medical and science research. Prior to joining the Group, Mr. Zhu held various positions in the IBP from 1964 to 1988. Subsequently, Mr. Zhu served as the general manager of Biosino Hi-Tech until 2001. Mr. Zhu joined the Company in April 2001.

Non-executive Directors

Mr. Hua Jiabin (華家新先生), aged 51, is a non-executive Director and the vice chairman of the Company. Mr. Hua was nominated by the Company as a director of Baiao Pharmaceuticals in March 2005. Mr. Hua graduated from the Murdoch University, Western Australia with a master degree in business administration in March 2000. Mr. Hua has over 15 years of experience in corporate management. Since 1998, Mr. Hua was the human resources manager of Beijing Jingtai Holdings Limited (北京京泰集團有限公司) and BEHL, the vice general manager of Beijing Enterprises Holdings Investment Management Co., Ltd. (北京控股投資管理有限公司) and the vice chairman of the Beijing Jianguo Hotel (建國飯店). In addition, Mr. Hua is currently the vice chairman of Beijing Bei Kong Water Supplies Co., Ltd. (北京北控水務有限公司). Mr. Hua was appointed by BEHT as its representative on the Board. Mr. Hua joined the Company in December 2004.

Directors, Supervisors and Senior Management

Dr. He Rongqiao (赫榮喬博士), aged 51, is a non-executive Director of the Company. Dr. He graduated from Luzhou Medical College (瀘州醫學院) with a bachelor's degree in medicine in 1982, the Institute of Microbiology of the CAS (中國科學院微生物研究所) with a master's degree in science in 1986, and the IBP with a Ph.D. degree in 1990. Dr. He also worked as a visiting scientist at the University of Bristol, Britain in 1996, the University of Pisa, Italy in 1999 and the New York State Institute for Basic Research in Developmental Disabilities, US during the period from 1996 to 2001. Dr. He is currently the deputy director of IBP, the administrator of the Brain and Cognitive Sciences Center of the IBP (中國科學院生物物理研究所腦與認知科學中心), the head of the National Key Laboratory of the Brain and Cognitive Sciences (腦與認知科學國家重點實驗室), the administrator of the Key Laboratory of Visual Information Processing of the CAS (中科院視覺信息加工重點實驗室), the managing director of the Biophysics Society of China (中國生物物理學會), the vice administrator of Professional Committee of the Neural Science of the Biophysics Society of China (中國生物物理學會神經科學專業委員會), the member of the 5th editorial board of China Biochemistry and Molecular Biophysics Journal (中國生物化學與分子生物學報). Dr. He is also the deputy editor-in-chief of an academic journal, namely Progress in Biochemistry and Biophysics (生物化學與生物物理進展) in October 2004 and was joined as a member of the Medical Molecular Biophysics Magazine (醫學分子生物學雜誌) committee in January 2005. Dr. He was nominated by the IBP as its representative on the Board. Dr. He joined the Company in September 2003.

Ms. Li Chang (李暢女士), aged 38, is a non-executive Director of the Company. Ms. Li was nominated by the Company as the director of Baiao Pharmaceuticals in September 2003. Ms. Li graduated from the University of Electronic Science and Technology (電子科技大學), PRC with a bachelor's degree in electronics in 1990, and from the School of Economics & Management of Tsinghua University (清華大學) with a master of business administration degree in 1999. Ms. Li served as an engineer of Capital Steel Electric Instrument and Meter Co., Ltd. (首鋼電子儀器儀錶公司) in 1995 and was a senior engineer of Capital Steel High and New Technology Company Limited (首鋼高新技術公司) in 2001. Ms. Li served as the chief technological officer of Beijing Enterprises Holdings Investment Management Co., Ltd. (北京控股投資管理有限公司) during November 2000 to June 2003. Ms. Li is currently the director and the vice general manager of BEHT. Ms. Li was nominated by BEHT as its representative on the Board. Ms. Li joined the Company in September 2003.

Mr. Rong Yang (榮洋先生), aged 45, is a non-executive Director of the Company. Mr. Rong graduated from Peking Union Medical College (中國協和醫科大學) with a master's degree in medicine in 1987 and was awarded a certificate by the Educational Commission for Foreign Medical Graduates in 1991. Furthermore, Mr. Rong has also been the assistant to the general manager of BEHT since 2003. Mr. Rong was nominated by BEHT as its representative on the Board. Mr. Rong joined the Company in December 2004.

Ms. Yu Xiaomin (郁小民女士), aged 65, is a non-executive Director of the Company. Ms. Yu graduated from Tongji University, the PRC (同濟大學) with a bachelor's degree in applied chemistry in 1964. Ms. Yu was formerly engaged in the research at the Institute of Chemistry of the CAS and also served as the vice division chief, the division chief and the deputy director of the High-Tech Research and Development Bureau (高新技術研究與發展局) of the CAS. Ms. Yu has been the vice president of Shanghai New Margin Venture Capital Co., Ltd. since 1999 and was nominated as its representative on the Board. Ms. Yu joined the Company in April 2001.

Directors, Supervisors and Senior Management

Independent non-executive Directors

Prof. Yang Zhenhua (楊振華教授), aged 70, is an independent non-executive Director of the Company. Mr. Yang graduated from the Shenyang Medical College (瀋陽醫學院) with a bachelor's degree in medicine in 1956. Mr. Yang was previously a visiting scholar of Nantong Medicine College (南通醫學院) and a doctor of the Beijing Hospital (北京醫院) and was also the deputy director of the Inspection Association (檢驗學會) of the Chinese Medical Association (中華醫學會) in 1991, a professor of the Beijing Medical University (北京醫科大學) from 1992 to 1995 and the chairman of the sub-committee of Clinical Inspection Standard (臨床檢驗標準分委會) of the National Health Standard Technology Committee (全國衛生標準技術委員會) of the MPH, PRC in 1997. Mr. Yang was the vice chairman of the Committee of Health Professional Qualification Examination of Experts (衛生專業技術資格考試專家委員會) of the MPH from 2001 to 2004. Mr. Yang currently serves as a member of technical appraisal expert team of medical related matters of the Chinese Medical Association (中華醫學會). Mr. Yang was appointed as an independent non-executive Director in April 2005.

Dr. Hua Sheng (華生博士), aged 53, is an independent non-executive Director of the Company. Dr. Hua graduated from Wuhan University (武漢大學) with a Ph.D. degree in economics in 2001. Dr. Hua was a deputy research fellow at the University of Cambridge in 1992 and was also a professor of the Southeast University (東南大學) in 2000. Dr. Hua was a committee member of the All China Youth Federation (中華全國青年聯合委員會) in 1986, the administrator of the Research Laboratory of Microeconomics of the Institute of Economic Research of the Chinese Academy of Social Sciences (中科院經濟研究所微觀經濟研究室) in 1988, and the secretary general of the China Association for Promotion of International Quality Certification Consultancy (中國國際質量認證諮詢促進會) in 1994. Dr. Hua is currently the headmaster and the legal representative of Yanjing Overseas Chinese University (燕京華僑大學). Dr. Hua was appointed as an independent non-executive Director in April 2005.

Mr. Chan Yiu Kwong (陳耀光先生), aged 41, is an independent non-executive Director of the Company. He graduated from the University of Hong Kong with a bachelor's degree in social sciences in 1988. Mr. Chan is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. From 1988 to 1996, Mr. Chan worked as an auditor in Ernst and Young. From 1996 to 1999, Mr. Chan was the financial controller and the company secretary of Founder Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange of Hong Kong. Mr. Chan joined Hi Sun Technology (China) Limited (formerly known as "Hi Sun Group Limited"), a company listed on the Main Board of the Stock Exchange of Hong Kong, since March 2001 and currently serves as a director and the company secretary of the Company. Mr. Chan has 15 years of experience in auditing, business consulting and business management. Mr. Chan was appointed as an independent non-executive Director in April 2005.

Directors, Supervisors and Senior Management

SUPERVISORS

Dr. Yan Xiyun (閻錫蘊博士), aged 48, is a supervisor of the Company. Dr. Yan was a visiting scholar and completed an international training course on “The Molecular Basis of Cell Motility” in Nagoya University, Japan in 1985 and graduated from the University of Heidelberg, Germany with a Ph.D. degree in 1992. Dr. Yan was also the senior visiting scholar at the Protein Chemistry Laboratory of Max-Planck Institute for Biological Chemistry in 2000 for 14 months. Dr. Yan worked as a visiting scientist at the Memorial Sloan-Kettering Cancer Center in New York, US in 1994 for about two years. Having been engaged in the research of protein functions and antibody engineering since 1993, Dr. Yan had assumed a number of research tasks, such as Class A projects under the National Natural Science Fund (國家自然科學基金項目類別A), the national 973 program relating to innovation of new medicine (“973” 項目《重要疾病創新藥物先導結構的發現與優化》) and the national 863 program relating to antibody engineering research (國家高技術研究發展計劃(863計劃)). Dr. Yan was a researcher at the Institute of Microbiology, the CAS (中國科學院微生物研究所). Dr. Yan currently assumes a number of social and academic positions, including the researcher of IBP and a life member of the Chinese Society of Immunology (中國免疫學會), and a member of the 7th editorial board of the Journal of Microbiology (微生物通報) of Microbiology Committee of the PRC (中國微生物學會). Dr. Yan was also engaged as a researcher of the IBP and a member of the 2nd session of the Academic Committee of the State Key Laboratory of Biochemical Engineering (生化工程國家重點實驗室第二屆學術委員會), Dr. Yan was nominated by the IBP and joined the Company as supervisor in September 2003.

Mr. Wang Xin (王昕先生), aged 36, is a supervisor of the Company. Mr. Wang graduated from the Beijing University of Aeronautics and Astronautics (北京航空航天大學) with a bachelor’s degree in material science and engineering majoring in high molecular materials in 1992 and the Renmin University of China (中國人民大學) with a master degree in business administration in 2000. From 2000 to 2003, Mr. Wang was the manager of the materials business department of Beijing Capital Technology Investment Co., Ltd. (北京首創科技投資有限公司) and the general manager of Beijing Capital Nano Technology Co., Ltd. (北京首創納米科技有限公司). Mr. Wang currently works in the investment management department of BEHT. Mr. Wang joined the Company in June 2004.

Mr. Shao Yimin (邵依民先生), aged 47, is a supervisor of the Company. Mr. Shao completed a trade finance course in the University of International Business and Economics (對外經濟貿易大學) in 1990, and also graduated from the Capital University of Economics and Business (首都經濟貿易大學) with a master degree in property economics (business administration) in 2002. Mr. Shao was the secretary to the president of the Company and also the vice officer of the president’s office of the Company. Mr. Shao is currently the head of the supply division of the Company. Mr. Shao joined the Company in January 2004.

Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. Hou Quanmin (侯全民先生), aged 39, is the vice president of the Company and the director and general manager of Baiao Pharmaceuticals responsible for the overall management of Baiao Pharmaceuticals. Mr. Hou possesses over 14 years of experience in science, technology development and management. After graduation from the School of Biology of Beijing Agricultural University (北京農業大學) with a bachelor's degree in applied chemistry (agriculture) in 1988, Mr. Hou worked in the Beijing Detector Instrument Factory (北京檢測儀器廠) from 1988 to 1990 and was mainly responsible for technical work. Mr. Hou was also responsible for the management of offices, enterprises and technology development in the IBP from 1990 to 1999. Mr. Hou was the vice head in charge of technology (科技副縣長) of Chicheng County of Hebei Province in 1996. Since 1999, Mr. Hou has been the general manager of Baiao Pharmaceuticals. Mr. Hou's success in management performance was recognised by the Professional Managerial Research Centre (職業經理研究中心) with an honourable certificate on professional management innovation award (職業經理管理創新獎) in 2003. Mr. Hou joined the Company in March 2002.

Mr. Zhou Jie (周潔先生), aged 43, is the vice president responsible for the sales and trading division of the Company. Mr. Zhou completed a professional course in politics in Beijing Broadcast Television University (北京廣播電視大學) in 1988 and also graduated from the Renmin University of China (中國人民大學) with a master degree in business administration in 2004. Mr. Zhou joined Biosino Biochemical in 1990 and worked in the Chengdu development department responsible for sales across the southwestern region of the PRC and later worked in the marketing department as a department manager. Mr. Zhou joined the Company in April 2001.

Ms. Yao Ping (姚萍女士), aged 43, is a vice president responsible for the administration and human resources division of the Company. Ms. Yao graduated from the Shanxi College of Finance & Economics (山西財經學院) with a bachelor's degree in economics in 1983 and also completed a teacher education course in planning and statistics at the Renmin University of China (中國人民大學) in 1984. Ms. Yao obtained an associate-professor qualification from the Personnel Department of Gansu Province (甘肅省人事廳) and the Job Title Working Group of the Gansu Province (甘肅省職稱工作領導小組辦公室) in 1998 and has published many articles and monographs. During 1983 to 1999, Mr. Yao taught economics at Northwest Normal University (西北師範大學). During 1999 to 2002, Ms. Yao was seconded to IBP and responsible for corporate development. Ms. Yao joined the Company in April 2001.

Dr. Xu Cunmao (許存茂博士), aged 42, is a vice president responsible for the investment and corporate finance functions of the Company. Dr. Xu graduated from the Northwest Normal College (西北師範學院) with a bachelor's degree in science and a master's degree in science in 1984 and 1988 respectively. Dr. Xu also obtained a Ph.D. degree in science from the Northeast Normal University (東北師範大學) in 1990. During 2000 to 2002, Dr. Xu was also the general manager of Beijing PKU Weiming Diagnostics Co., Ltd. (北京北大未名診斷試劑有限公司) and was also the assistant to the chairman of PKU Weiming Biochemical Engineering Group (北大未名生物工程集團). Dr. Xu joined the Company in September 2003.

Directors, Supervisors and Senior Management

SENIOR MANAGEMENT *(continued)*

Ms. Wang Lin (王琳女士), 38, is the vice president and the head of the research and development centre of the Group responsible for the research and development, as well as international relations of the Company. Dr. Wang graduated from the Department of Biology of Peking University (北京大學) with a bachelor's degree in science in 1990. Dr. Wang also obtained a Ph.D. degree in biochemistry from University of Wisconsin-Madison, United States, in 1997, after which Dr. Wang conducted postdoctoral research on protein kinase regulation and signal transduction at University of California-San Diego (UCSD). In 2000, Dr. Wang co-founded Allele Biotechnology & Pharmaceuticals, Inc. in San Diego, California and served as its director and co-chief executive officer. In 2004, Dr. Wang participated in the "One Hundred Talent Project" (百人計劃) at the Institute of Microbiology, the CAS. Dr. Wang has published a number of articles in various journals e.g. the Journal of Cell Biology, the Journal of Biological Chemistry, and BMC Neuroscience. Dr. Wang joined the Company in September 2005.

Ms. Dong Zhongfang (董忠芳女士), aged 37, is the chief financial officer of the Group responsible for the financial affairs. Ms. Dong graduated from the Central University of Finance and Economics (中央財經大學) with a bachelor's degree in economics majoring in accounting in 1991. Ms. Dong holds the qualifications of senior accountant, certified public accountant and certified tax agent. Ms. Dong had over 10 years of finance and accounting experience in a number of domestic companies and accounting firms. Prior to joining the Company, Ms. Dong was the financial controller of Beijing Continent & Ocean Digital Control Co., Ltd. (北京陸洋數控有限公司) from 1999 to 2001. Ms. Dong joined the Company in April 2001.

Mr. Tian Yiguo (田一國先生), aged 45, is the secretary of the Board responsible for matters relating to the board of directors of the Group such as preparation of documents for board meetings and shareholders' meetings and general record keeping. Mr. Tian graduated from Wuhan University (武漢大學) with a bachelor's degree in science in 1982 and also studied corporate management at the University of Hamburg, Germany during 1988 to 1990. Mr. Tian completed a training course on "secretary of the board of directors of listed company" organised by the Shanghai Stock Exchange in 2001 and also completed a training course for company secretaries and independent directors of listed companies jointly organised by the CSRC and the School of Economics & Management of Tsinghua University in 2002. Mr. Tian is a senior engineer certified by the Ministry of Internal Trade of the PRC (中華人民共和國國內貿易部). Mr. Tian joined BEHT in 1999 and has been responsible for investment management. Mr. Tian has about six years of experience in investment and management. Mr. Tian joined the Company in April 2001.

Mr. Li Shengli (李勝利先生), aged 58, is the deputy general manager of Baiao Pharmaceuticals. Mr. Li graduated from the Physics Department of Fudan University (復旦大學) with a bachelor's degree in computer in July 1975. Mr. Li is a qualified senior engineer certified by the CAS in March 1996 and was the head of human resources and education department of the IBP during December 1990 to January 1999. Mr. Li joined Baiao Pharmaceuticals in 1999 and has been the deputy general manager of Baiao Pharmaceuticals since February 1999 responsible for the overall supervision and management of production, procurement and human resources division.

Directors, Supervisors and Senior Management

SENIOR MANAGEMENT *(continued)*

Mr. Liu Jianzhong (劉建中先生), aged 40, is the deputy general manager of Baiao Pharmaceuticals. Mr. Liu graduated from the Jilin Finance and Trading Institute (吉林財貿學院) in 1989 with a bachelor's degree in economics and is a certified accountant in the PRC. He was appointed as the accountant and the vice general manager of Baiao Pharmaceuticals since February 1999 responsible for assisting Mr. Hou Quanmin in the overall financial management of Baiao Pharmaceuticals. Mr. Liu joined the Group in February 2002.

Dr. Wan Xingzhong (萬興中博士), aged 44, is the general manager assistant of Baiao Pharmaceuticals. Dr. Wan graduated from the University of Portsmouth, Britain with a PhD degree in 1993. Dr. Wan did his postdoctoral research in Beijing Institute of Technology (北京理工大學) during March 1994 to October 1996. Dr. Wan joined Baiao Pharmaceuticals in 1999 and was appointed as the general manager's assistant of Baiao Pharmaceuticals since October 1999. Dr. Wan is currently responsible for the improvement of manufacturing technology and GMP quality assurance. Dr. Wan joined the Group in February 2002.

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric (董煥樟先生), aged 35, is the company secretary of the Company. Mr. Tung graduated from York University, Toronto, Canada with a bachelor of administrative studies degree in 1993. Mr. Tung is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants. He is also a U.S. certified public accountant and a member of The American Institute of Certified Public Accountants. Mr. Tung has previously worked in Ernst & Young and possesses extensive experience. Mr. Tung is currently the general manager of the finance department of BEHL; the financial controller of Shenzhen Guanshun Road & Bridge Co., Ltd. (深圳觀順公路管理有限公司); a member of the supervisory committee of Siemens Communication Networks Ltd., Beijing (北京西門子通信網路股份有限公司); the director of EverSource Scientific and Technology Development Co., Ltd. (恒有源科技發展有限公司) and the independent non-executive director of South China Brokerage Company Limited (南華證券有限公司), a company listed on the Main Board of the Stock Exchange of Hong Kong. Mr. Tung has undertaken that sufficient time will be allocated to the role of the Group's company secretary to discharge the related duties.

QUALIFIED ACCOUNTANT

Mr. Chan King Fai (陳景輝先生), aged 27, is the qualified accountant of the Company. Mr. Chan graduated from The Hong Kong University of Science and Technology with a bachelor of business administration degree in accounting and is a Certified Public Accountant registered with the Hong Kong Institute of Certified Public Accountants. Mr. Chan previously worked in Ernst & Young for four years and was involved in auditing and company flotation work. Mr. Chan joined the Group in December 2005. Prior to joining the Group, he was an accounting manager of BEHL.

REPORT OF THE AUDITORS



To the members

Biosino Bio-Technology and Science Incorporation

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

We have audited the financial statements on pages 39 to 87 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000
TURNOVER	4	135,432	121,989
Cost of sales		(40,862)	(33,582)
Gross profit		94,570	88,407
Other revenue and gain	4	3,020	2,843
Selling and distribution costs		(36,970)	(32,445)
Administrative expenses		(21,560)	(20,797)
Research and development costs		(7,531)	(6,762)
Other operating expenses		(607)	(1,261)
PROFIT FROM OPERATING ACTIVITIES	5	30,922	29,985
Finance costs	6	(475)	(24)
PROFIT BEFORE TAX		30,447	29,961
Tax	9	(3,921)	(4,053)
PROFIT FOR THE YEAR		26,526	25,908
Attributable to:			
Shareholders of the Company	10	24,352	23,834
Minority interest		2,174	2,074
		26,526	25,908
Dividends	12	10,002	33,490
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic (RMB)		0.35	0.34

CONSOLIDATED BALANCE SHEET

31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	107,327	82,079
Prepaid land premiums	15	7,059	7,317
Know-how	16	1,787	2,077
Trade and bills receivables	20	603	–
Investment deposit	17	1,000	–
Total non-current assets		117,776	91,473
Current assets:			
Prepaid land premiums	15	146	–
Inventories	19	21,706	16,868
Trade and bills receivables	20	22,954	18,578
Prepayments, deposits and other receivables	21	10,318	5,864
Pledged bank balance	22	317	–
Cash and cash equivalents	22	37,840	46,835
Total current assets		93,281	88,145
TOTAL ASSETS		211,057	179,618
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	23	70,018	70,018
Reserves	24(a)	32,640	18,290
Proposed final dividend	12	10,002	18,000
		112,660	106,308
Minority interest		10,283	9,709
TOTAL EQUITY		122,943	116,017
Non-current liabilities:			
Other long term liabilities	25	4,500	6,800
Total non-current liabilities		4,500	6,800
Current liabilities:			
Trade and bills payables	26	958	676
Other payables and accruals	29	41,060	54,079
Taxes payable	28	1,596	2,046
Bank borrowings	27	40,000	–
Total current liabilities		83,614	56,801
TOTAL LIABILITIES		88,114	63,601
TOTAL EQUITY AND LIABILITIES		211,057	179,618

Rao Zihe
Director

Wu Lebin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Notes	Attributable to shareholders of the Company					Total	Minority interest	Total equity
		Issued share capital	Capital reserves [#]	Statutory reserves	Retained Profits	Proposed final dividend			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2004		70,018	1,529	8,050	18,367	–	97,964	7,635	105,599
Profit for the year and total recognised income and expense for the year		–	–	–	23,834	–	23,834	2,074	25,908
Transfer to capital reserves		–	1,430 ^μ	–	(1,430)	–	–	–	–
Transfer to statutory reserves	11	–	–	4,761	(4,761)	–	–	–	–
Final 2003 dividend declared	12	–	–	–	(15,490)	–	(15,490)	–	(15,490)
Proposed final 2004 dividend	12	–	–	–	(18,000)	18,000	–	–	–
At 31 December 2004 and 1 January 2005		70,018	2,959 [†]	12,811 [†]	2,520 [†]	18,000	106,308	9,709	116,017
Profit for the year and total recognised income and expense for the year		–	–	–	24,352	–	24,352	2,174	26,526
Transfer to capital reserves		–	4,585 ^μ	–	(4,585)	–	–	–	–
Transfer to statutory reserves	11	–	–	4,475	(4,475)	–	–	–	–
Final 2004 dividend declared	12	–	–	–	–	(18,000)	(18,000)	–	(18,000)
Dividend declared to a minority shareholder		–	–	–	–	–	–	(1,600)	(1,600)
Proposed final 2005 dividend	12	–	–	–	(10,002)	10,002	–	–	–
At 31 December 2005		70,018	7,544[†]	17,286[†]	7,810[†]	10,002	112,660	10,283	122,943

The capital reserves of the Group include non-distributable reserves of the Company and its subsidiary created in accordance with accounting and financial regulations in the PRC.

† These reserve accounts comprise the consolidated reserves of RMB18,290,000 and RMB42,642,000 in the consolidated balance sheets as at 31 December 2004 and 2005, respectively.

μ The amounts transferred to the capital reserves from retained profits represent government grants received during the years which are non-distributable in accordance with accounting and financial regulations in the PRC.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		30,447	29,961
Adjustments for:			
Interest income	4	(611)	(815)
Finance costs	6	475	24
(Gain)/loss on disposal of property, plant and equipment, net	4, 5	28	(16)
Amortisation of know-how	5	290	290
Depreciation	5	3,861	3,010
Recognition of prepaid land premiums	15	112	–
Provision against slow-moving inventories and inventory loss, net	5	163	122
Provision for doubtful trade and other receivables and bad debts written off	5	577	1,027
Operating profit before working capital changes		35,342	33,603
(Increase)/decrease in inventories		(5,001)	1,061
Increase in trade and bills receivables		(5,201)	(6,787)
Increase in prepayments, deposits and other receivables		(4,909)	(3,188)
Increase/(decrease) in trade and bills payables		282	(712)
Decrease in other taxes payable		(211)	(81)
Increase/(decrease) in other payables and accruals		(3,654)	2,229
Cash generated from operations		16,648	26,125
Mainland China income tax paid		(4,160)	(4,125)
Interest received		611	815
Net cash inflow from operating activities		13,099	22,815
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment deposit paid		(1,000)	–
Purchases of property, plant and equipment		(31,807)	(43,783)
Proceeds from disposal of property, plant and equipment		395	87
Proceed from disposal of an available-for-sale financial asset		100	–
Increase in a pledged bank balance	22	(317)	–
Net cash outflow from investing activities		(32,629)	(43,696)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	55,000	5,000
Repayment of bank loans	(15,000)	(5,000)
Increase in other long term liabilities	4,500	3,000
Interest paid	(475)	(24)
Dividend paid	(33,490)	–
Net cash inflow from financing activities	10,535	2,976
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,995)	(17,905)
Cash and cash equivalents at beginning of year	46,835	64,740
CASH AND CASH EQUIVALENTS AT END OF YEAR	37,840	46,835
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	37,840	46,835

BALANCE SHEET

31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	43,997	40,386
Prepaid land premiums	15	3,603	3,717
Interest in a subsidiary	18	26,629	19,778
Trade and bills receivables	20	603	–
Investment deposit	17	1,000	–
Total non-current assets		75,832	63,881
Current assets:			
Prepaid land premiums	15	74	–
Inventories	19	15,840	11,750
Trade receivables	20	10,183	7,746
Prepayment, deposits and other receivables	21	7,897	3,649
Pledged bank balance	22	317	–
Cash and cash equivalents	22	23,997	34,784
Total current assets		58,308	57,929
TOTAL ASSETS		134,140	121,810
EQUITY AND LIABILITIES			
Equity:			
Issued capital	23	70,018	70,018
Reserves	24(a)	21,193	(862)
Proposed final dividend	12	–	18,000
Total equity		91,211	87,156
Non-current liabilities:			
Other long term liabilities	25	400	–
Total non-current liabilities		400	–
Current liabilities:			
Trade and bills payables	26	147	107
Other payables and accruals	29	11,579	33,541
Taxes payable	28	803	1,006
Bank borrowing	27	30,000	–
Total current liabilities		42,529	34,654
TOTAL LIABILITIES		42,929	34,654
TOTAL EQUITY AND LIABILITIES		134,140	121,810

Rao Zihe
Director

Wu Lebin
Director

NOTE TO FINANCIAL STATEMENTS

31 December 2005

1. CORPORATE INFORMATION

Biosino Bio-Technology and Science Incorporation (the "Company" or the parent) is a limited liability company incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 27, Chaoqian Road Science and Technology Industrial Park, Changping District, Beijing, the PRC. H shares of the Company have been listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 February 2006.

During the year, the Group was principally engaged in the manufacture, sale and distribution of in-vitro diagnostic reagent products and a pharmaceutical product.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when indicated otherwise.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of the subsidiary are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of the subsidiary has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the net fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus cost directly attributable to the acquisition.

Minority interest represents the interest of an outside shareholder in the results and net assets of the Company's subsidiary.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiary

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of a subsidiary are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in a subsidiary is stated at cost less any accumulated impairment losses.

Joint ventures

A joint venture company is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) an available-for-sale financial asset, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of a subsidiary, after reassessment, is recognised immediately in the consolidated income statement.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries,
 - (i) controls, is controlled by, or is under common control with, the Group;
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) the party is a jointly-controlled entity;
- (c) the party is an associate;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss for an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.3%
Plant and machinery	8.6% to 19.4%
Furniture and fixtures	19.0% to 24.3%
Motor vehicles	19.0% to 19.4%

Improvements to buildings are depreciated over the shorter of the lease terms and the rate of 10% per annum. Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

CIP represents buildings, structures, plant and machinery and other items of property, plant and equipment that are under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction or installation. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against the income statement in the period in which the expenditure is incurred.

Useful lives of acquired intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost and are not amortised.

Intangible assets are tested for impairment annually either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and, where applicable, adjustments are made on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of the intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset, is recognised in the income statement in the period the intangible asset is derecognised.

Know-how

Purchased know-how is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Regular way purchases and sale of financial assets

All regular way purchases and sale of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Trade and other receivables

Trade receivables, which generally have terms of 60 to 90 days, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made for trade and other receivables when collection of the full amount is no longer probable. Bad debts are written off when identified.

Bank loans

All bank loans are initially recognised at cost, being the fair value of the consideration received net of the associated issue costs. After initial recognition, bank loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in a subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investment in a subsidiary, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of a financial instrument to the net carrying amount of that financial asset.

Retirement benefits scheme costs

In accordance with the rules and regulations in Mainland China, the employees of the Group participate in a defined contribution retirement benefits scheme operated by the relevant municipal government in Mainland China, the assets of which are held separately from those of the Group. The Group and the employees are required to make monthly contributions to this scheme calculated as a percentage of the employees' salaries which are charged to the income statement as they become payable, in accordance with the rules of the retirement benefits scheme. The employer contributions vest fully once made.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The functional and presentation currency of the Company and its subsidiary is RMB.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the functional currency exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segment. Particulars of the business segments are summarised as follows:

- (a) the in-vitro diagnostic reagent products segment manufactures, sells and distributes a variety of mono/double diagnostic reagent products; and
- (b) the pharmaceutical product segment manufactures, sells and distributes a pharmaceutical product.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

3. SEGMENT INFORMATION *(continued)***(a) Business segments**

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005

	In-virto diagnostic reagent products RMB'000	Pharma- ceutical product RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	79,079	56,353	–	135,432
Other revenue	16	2,393	–	2,409
Total	79,095	58,746	–	137,841
Segment results	17,800	12,511		30,311
Interest income				611
Profit from operating activities				30,922
Finance costs				(475)
Profit before tax				30,447
Tax				(3,921)
Profit for the year				26,526
Attributable to:				
Shareholders of the Company				24,352
Minority interest				2,174
				26,526
Assets and liabilities:				
Segment assets	90,143	89,740	(6,983)	172,900
Unallocated assets				38,157
Total assets				211,057
Segment liabilities	12,665	42,185	(6,983)	47,867
Unallocated liabilities				40,247
Total liabilities				88,114
Other segment information:				
Depreciation	3,169	692	–	3,861
Amortisation of know-how	–	290	–	290
Capital expenditure	7,128	22,404	–	29,532

NOTE TO FINANCIAL STATEMENTS

31 December 2005

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2004

	In-virto diagnostic reagent products RMB'000	Pharma- ceutical product RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	69,768	52,221	–	121,989
Other revenue	33	1,995	–	2,028
Total	69,801	54,216	–	124,017
Segment results	17,492	11,678		29,170
Interest income				815
Profit from operating activities				29,985
Finance costs				(24)
Profit before tax				29,961
Tax				(4,053)
Profit for the year				25,908
Attributable to:				
Shareholders of the Company				23,834
Minority interest				2,074
				25,908
Assets and liabilities:				
Segment assets	67,343	65,535	(95)	132,783
Unallocated assets				46,835
Total assets				179,618
Segment liabilities	34,397	28,813	(95)	63,115
Unallocated liabilities				486
Total liabilities				63,601
Other segment information:				
Depreciation	1,424	1,586	–	3,010
Amortisation of know-how	–	290	–	290
Capital expenditure	29,583	28,580	–	58,163

NOTE TO FINANCIAL STATEMENTS

31 December 2005

3. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

No geographical segmental analysis is presented as all of the Group's assets and operations were located in Mainland China for each of the years ended 31 December 2005 and 2004.

4. TURNOVER, OTHER REVENUE AND GAIN

Turnover represents the net invoiced value of goods sold, net of value-added tax and government surcharges, and after allowances for goods returned and trade discounts.

An analysis of the Group's turnover, other revenue and gain is as follows:

	2005 RMB'000	2004 RMB'000
<u>Turnover</u>		
Sale of in-vitro diagnostic reagent products	79,079	69,768
Sale of a pharmaceutical product	56,353	52,221
	135,432	121,989
<u>Other revenue and gain</u>		
Bank interest income	611	815
Government grants*	2,232	1,788
Gain on disposal of property, plant and equipment, net	-	16
Others	177	224
	3,020	2,843

* Government grants represented refunds of turnover taxes which include value-added tax, city construction tax and education surcharges. The government grants are unconditional, except for the fact that they must be utilised for research and development activities of the Group.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):–

	NOTES	2005 RMB'000	2004 RMB'000
Cost of inventories sold		40,572	33,292
Depreciation	14	3,861	3,010
Loss/(gain) on disposal of property, plant and equipment, net		28	(16)
Amortisation of know-how*	16	290	290
Minimum lease payment under operating leases in respect of land and buildings		1,508	2,979
Amortisation of prepaid land premiums	15	112	–
Auditors' remuneration		600	180
Employee benefits expense (including directors' and supervisors' remuneration):			
Wages and salaries		20,928	25,275
Retirement benefits scheme contributions		1,806	1,419
		22,734	26,694
Provision for doubtful trade and other receivables and bad debts written off		577	1,027
Provision against slow-moving inventories and inventory loss		163	122

* The amortisation of know-how is included in "Cost of sales" on the face of the consolidated income statements.

6. FINANCE COSTS

	Group 2005 RMB'000	2004 RMB'000
Interest on bank loans	475	24

NOTE TO FINANCIAL STATEMENTS

31 December 2005

7. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2005 RMB'000	2004 RMB'000
Fees	118	123
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	1,660	1,288
Retirement benefits scheme contributions	9	9
	1,669	1,297
	1,787	1,420

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 RMB'000	2004 RMB'000
Prof. Yang Zhenhua	–	–
Dr. Hua Sheng	–	–
Mr. Chan Yiu Kwong	–	–
	–	–

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

NOTE TO FINANCIAL STATEMENTS

31 December 2005

7. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and supervisors

2005

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Wu Lebin	–	1,178	6	1,184
Mr. Zhu Yigui	–	376	–	376
Non-executive directors:				
Dr. Rao Zihe	25	–	–	25
Mr. Hua Jiabin	14	–	–	14
Dr. He Rongqiao	14	–	–	14
Mr. Miao Wenliang	11	–	–	11
Ms. Li Chang	14	–	–	14
Mr. Rong Yang	14	–	–	14
Ms. Yu Xiaomin	11	–	–	11
Supervisors:				
Dr. Yan Xiyun	8	–	–	8
Mr. Wang Xin	7	–	–	7
Mr. Chen Aijun	–	45	2	47
Mr. Shao Yimin	–	61	1	62
	118	1,660	9	1,787

NOTE TO FINANCIAL STATEMENTS

31 December 2005

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors (continued)

2004	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Wu Lebin	–	657	6	663
Mr. Zhu Yigui	–	532	–	532
Non-executive directors:				
Dr. Rao Zihe	43	–	–	43
Mr. Hua Jiabin	–	–	–	–
Dr. He Rongqiao	3	–	–	3
Ms. Li Chang	21	–	–	21
Mr. Wang Yong	21	–	–	21
Mr. Jin Xing	11	–	–	11
Mr. Rong Yang	–	–	–	–
Ms. Yu Xiaomin	7	–	–	7
Mr. Miao Wenliang	7	–	–	7
Supervisors:				
Dr. Yan Xiyun	6	–	–	6
Mr. Wang Xin	4	–	–	4
Mr. Feng Jixiang	–	–	–	–
Mr. Chen Aijun	–	99	3	102
Mr. Shao Yimin	–	–	–	–
	123	1,288	9	1,420

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: two) directors/supervisors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2004: three) non-director/supervisor, highest paid employees for the year are as follows:

	Group	
	2005 RMB'000	2004 RMB'000
Salaries, bonuses, allowances and benefits in kind	1,497	1,116
Retirement benefits scheme contributions	15	10
	1,512	1,126

The number of non-director/supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
Nil to RMB1,040,000 (equivalent to HK\$1,000,000)	3	3

9. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. According to the relevant PRC income tax law, the Company and its subsidiary, registered as new and high technology enterprises in Beijing, are entitled to a concessionary income tax rate of 15%, which has been applied for both years.

	Group	
	2005 RMB'000	2004 RMB'000
Group:		
Current – Mainland	4,178	4,053
Overprovision in prior years	(257)	–
Total tax charge for the year	3,921	4,053

NOTE TO FINANCIAL STATEMENTS

31 December 2005

9. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiary are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Profit before tax	30,447	29,961
Tax at applicable income tax rate of 15%	4,567	4,494
Adjustments in respect of current tax of previous periods	(257)	–
Additional tax concession	(565)	(507)
Income not subject to tax	(358)	(17)
Expenses not deductible for tax	534	83
	3,921	4,053
Tax charge at the Group's effective rate		

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The net profit from ordinary activities attributable to shareholders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company, was RMB 22,055,000 (2004: RMB15,537,000) (note 24(b)).

11. DISTRIBUTION OF PROFIT

In accordance with the Company Law of the PRC and the articles of association of the Company and its subsidiary registered in the PRC, the Company and its subsidiary are required to appropriate 10% of their net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to PRC enterprises to the statutory surplus reserve until the reserve balance has reached 50% of each entity's capital and 5% to 10% to the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund, respectively. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages. The statutory public welfare fund can only be utilised for collective benefits of the employees of the respective companies. The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

NOTE TO FINANCIAL STATEMENTS

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12. DIVIDENDS

	NOTE	2005 RMB'000	2004 RMB'000
Final dividend 2003 – RMB0.22 per share	(a)	–	15,490
Proposed final dividends – RMB0.10 (2004: RMB0.26) per share		10,002	18,000
		10,002	33,490

Note:

- (a) On 17 June 2004, after the issuance of the statutory financial statements of the Company for the year ended 31 December 2003, the directors of the Company declared and the shareholders of the Company approved a final dividend of RMB15,490,000 for the year ended 31 December 2003.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the Group's net profit for the year attributable to shareholders of the Company and the weighted average of 70,017,528 (2004: 70,017,528) registered shares in issue during the year.

No diluted earnings per share amount have been presented as no diluting event existed during the year (2004: Nil).

NOTE TO FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000 (note (a))	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost	–	4,005	10,910	2,860	4,003	75,035	96,813
Accumulated depreciation and impairment	–	(4,005)	(7,340)	(1,621)	(1,768)	–	(14,734)
Net carrying amount	–	–	3,570	1,239	2,235	75,035	82,079
Cost, net of accumulated depreciation and impairment as at 1 January 2005	–	–	3,570	1,239	2,235	75,035	82,079
Additions	–	–	2,037	1,055	992	25,448	29,532
Transfer from CIP	32,850	307	7,023	9	–	(40,189)	–
Disposals	–	–	(387)	(21)	(15)	–	(423)
Depreciation provided during the year	(1,237)	–	(1,364)	(509)	(751)	–	(3,861)
Cost, net of accumulated depreciation and impairment as at 31 December 2005	31,613	307	10,879	1,773	2,461	60,294	107,327
At 31 December 2005:							
Cost	32,850	2,778	17,654	3,446	4,590	60,294	121,612
Accumulated depreciation and impairment	(1,237)	(2,471)	(6,775)	(1,673)	(2,129)	–	(14,285)
Net carrying amount	31,613	307	10,879	1,773	2,461	60,294	107,327

NOTE TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Buildings improvements RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
31 December 2004							
At 1 January 2004:							
Cost	–	4,005	10,093	2,852	2,818	19,912	39,680
Accumulated depreciation and impairment	–	(2,929)	(6,747)	(1,473)	(1,534)	–	(12,683)
Net carrying amount	–	1,076	3,346	1,379	1,284	19,912	26,997
Cost, net of accumulated depreciation and impairment as at 1 January 2004							
	–	1,076	3,346	1,379	1,284	19,912	26,997
Additions	–	–	659	721	1,575	55,208	58,163
Transfer from CIP	–	–	85	–	–	(85)	–
Disposals	–	–	(44)	(15)	(12)	–	(71)
Depreciation provided during the year	–	(1,076)	(962)	(360)	(612)	–	(3,010)
Reclassification	–	–	486	(486)	–	–	–
Cost, net of accumulated depreciation and impairment as at 31 December 2004							
	–	–	3,570	1,239	2,235	75,035	82,079
At 31 December 2004:							
Cost	–	4,005	10,910	2,860	4,003	75,035	96,813
Accumulated depreciation and impairment	–	(4,005)	(7,340)	(1,621)	(1,768)	–	(14,734)
Net carrying amount	–	–	3,570	1,239	2,235	75,035	82,079

Note:

- (a) The Group's buildings were pledged to secure certain bank borrowings granted to the Group as at 31 December 2005 (note 27).

NOTE TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's buildings, included above and land use rights, included in note 15 to the financial statements at cost, were valued at approximately RMB84,500,000 as at 31 December 2005 in the prospectus issued on 16 February 2006 in connection with the listing of the Company's shares on 27 February 2006. Had the Group's buildings and land use rights been included in these financial statements at such valuation amount throughout the year ended 31 December 2005, an additional depreciation charge and prepaid land premiums of approximately RMB200,000 in aggregate would have been charged to the consolidated income statement for the year ended 31 December 2005.

Company	Buildings RMB'000 (note (a))	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost	–	1,534	6,927	1,786	2,465	36,524	49,236
Accumulated depreciation and impairment	–	(1,534)	(5,098)	(1,004)	(1,214)	–	(8,850)
Net carrying amount	–	–	1,829	782	1,251	36,524	40,386
Cost, net of accumulated depreciation and impairment as at 1 January 2005	–	–	1,829	782	1,251	36,524	40,386
Additions	–	–	2,001	811	651	3,665	7,128
Transfer from CIP	32,850	307	7,023	9	–	(40,189)	–
Disposals	–	–	(340)	(4)	(4)	–	(348)
Depreciation provided during the year	(1,237)	–	(1,141)	(337)	(454)	–	(3,169)
Cost, net of accumulated depreciation and impairment as at 31 December 2005	31,613	307	9,372	1,261	1,444	–	43,997
At 31 December 2005:							
Cost	32,850	307	14,986	2,548	2,984	–	53,675
Accumulated depreciation and impairment	(1,237)	–	(5,614)	(1,287)	(1,540)	–	(9,678)
Net carrying amount	31,613	307	9,372	1,261	1,444	–	43,997

NOTE TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
31 December 2004							
At 1 January 2004:							
Cost	–	1,534	6,947	1,255	1,570	8,826	20,132
Accumulated depreciation and impairment	–	(1,388)	(4,647)	(871)	(950)	–	(7,856)
Net carrying amount	–	146	2,300	384	620	8,826	12,276
Cost, net of accumulated depreciation and impairment as at 1 January 2004							
	–	146	2,300	384	620	8,826	12,276
Additions	–	–	245	594	961	27,783	29,583
Transfer from CIP	–	–	85	–	–	(85)	–
Disposals	–	–	(35)	(11)	(3)	–	(49)
Depreciation provided during the year	–	(146)	(766)	(185)	(327)	–	(1,424)
Cost, net of accumulated depreciation and impairment as at 31 December 2004							
	–	–	1,829	782	1,251	36,524	40,386
At 31 December 2004:							
Cost	–	1,534	6,927	1,786	2,465	36,524	49,236
Accumulated depreciation and impairment	–	(1,534)	(5,098)	(1,004)	(1,214)	–	(8,850)
Net carrying amount	–	–	1,829	782	1,251	36,524	40,386

Note:

- (a) The Company's buildings were pledged to secure certain bank borrowings granted to the Company as at 31 December 2005 (note 27).

NOTE TO FINANCIAL STATEMENTS

31 December 2005

15. PREPAID LAND PREMIUMS

	Group 2005 RMB'000	2004 RMB'000	Company 2005 RMB'000	2004 RMB'000
Carrying amount at 1 January	7,317	7,317	3,717	3,717
Recognised during the year	(112)	–	(40)	–
Carrying amount at 31 December	7,205	7,317	3,677	3,717
Current portion included as current assets	(146)		(74)	–
Non-current portion	7,059	7,317	3,603	3,717

The Group's and the Company's interests in the land use rights are held under medium term leases and are situated in Mainland China.

16. KNOW-HOW

	Group RMB'000
31 December 2005	
Cost, net of accumulated amortisation as at 1 January 2005	2,077
Amortisation provided during the year	(290)
At 31 December 2005	<u>1,787</u>
At 31 December 2005:	
Cost	2,899
Accumulated amortisation	<u>(1,112)</u>
Net carrying amount	<u>1,787</u>

NOTE TO FINANCIAL STATEMENTS

31 December 2005

16. KNOW-HOW (continued)

	Group RMB'000
31 December 2004	
At 1 January 2004:	
Cost	2,899
Accumulated amortisation	(532)
	<u>2,367</u>
Net carrying amount	<u>2,367</u>
Cost, net of accumulated amortisation as at 1 January 2004	2,367
Amortisation provided during the year	(290)
	<u>2,077</u>
At 31 December 2004	<u>2,077</u>
At 31 December 2004 and 1 January 2005:	
Cost	2,899
Accumulated amortisation	(822)
	<u>2,077</u>
Net carrying amount	<u>2,077</u>

Know-how is related to the production process of the Group's pharmaceutical product. The know-how was purchased by the Group from a related company for a consideration of RMB2,898,600 in January 2002.

17. INVESTMENT DEPOSIT

During the year, the Company entered into an agreement with Guangzhou Kingmed Medicine Technology Co., Ltd. to purchase 51% equity interest in Beijing Kingmed High-tech Diagnostic Technology Co., Ltd. for a consideration of RMB1,950,000. A deposit of RMB1,000,000 had been paid by the Company as at the balance sheet date, which has been recorded as a non-current asset in the balance sheet. Beijing Kingmed High-tech Diagnostic Technology Co., Ltd. is engaged in sales and distribution of diagnostic reagents. The above acquisition has not been completed at the date of approval of the financial statements.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

18. INTERESTS IN A SUBSIDIARY

	Company	
	2005 RMB'000	2004 RMB'000
Unlisted equity investment in Mainland China, at cost	19,683	19,683
Dividend receivable from a subsidiary	6,400	–
Due from a subsidiary	583	95
Due to a subsidiary	(37)	–
	26,629	19,778

The dividend receivable and the amounts due from/(to) the subsidiary are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these dividend receivable and the amounts due from/(to) the subsidiary approximate to their fair values.

Particular of the subsidiary, which is directly held by the Company, is as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Beijing Baiao Pharmaceuticals Company Limited (“Baiao Pharmaceuticals”)	PRC/ Mainland China	RMB25 million	80	Manufacture, sale and distribution of a pharmaceutical product

19. INVENTORIES

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Raw materials	8,561	5,631	6,792	4,981
Work in progress	1,069	1,259	418	772
Semi-finished goods	1,714	2,236	581	419
Finished goods	9,696	6,912	8,049	5,578
Finished goods on consignment	666	830	–	–
	21,706	16,868	15,840	11,750

The amount of provision against slow-moving inventories and inventory loss recognised in the consolidated income statement during the year is set out in note 5 to the financial statements.

NOTE TO FINANCIAL STATEMENTS

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20. TRADE AND BILLS RECEIVABLES

The credit period of the Group to its customers is generally for a period ranging from 60 to 90 days, except for certain established customers, to which credit periods can be granted up to 14 months. The Group closely monitors overdue balances, and a provision for doubtful receivables is made when it is considered that amounts due may not be recovered. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables of the Group and the Company as at the balance sheet date is as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Within 3 months	19,422	15,887	9,098	7,991
4 to 6 months	4,001	2,435	2,065	126
7 to 12 months	825	600	173	16
1 to 2 years	547	798	29	189
Over 2 years	698	572	348	161
	25,493	20,292	11,713	8,483
Less: Provision for doubtful receivables	(1,936)	(1,714)	(927)	(737)
	23,557	18,578	10,786	7,746
Less: Portion classified as current assets	(22,954)	(18,578)	(10,183)	(7,746)
Non current portion	603	–	603	–

Included in the trade and bills receivables of the Group and the Company as at 31 December 2005 was an aggregate amount of RMB603,000 due from certain established customers of the Company with an extended credit period of 14 months granted by the Company. The balances are interest-free and are personally guaranteed by the legal representative of the respective companies.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Notes	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Advance to suppliers	1,175	752	887	640
Prepayments	3,298	2,031	2,864	1,950
Deposits and other debtors	5,615	2,981	4,146	1,059
Due from a shareholder 30	230	100	–	–
	10,318	5,864	7,897	3,649

Included in the Group's and the Company's other debtors as at 31 December 2005 were cash advances of RMB3,000,000 in aggregate made to two customers of the Company pursuant to the sales contract and the supplementary agreements dated 20 September 2005 and 9 September 2005, respectively, entered into between the respective customers and the Company in connection with the acquisition of certain bio-chemical instruments for the development of in-vitro diagnostic reagent products by the customers. The cash advances are personally guaranteed by the legal representative of the respective companies, which are interest-free and repayable in September 2006.

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCE

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Cash and bank balances	38,157	46,835	24,314	34,784
Less: Bank balance pledged for letter of credit facilities	(317)	–	(317)	–
Cash and cash equivalents	37,840	46,835	23,997	34,784

Cash at banks earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

23. SHARE CAPITAL

	2005 RMB'000	2004 RMB'000
Registered, issued and fully paid: 70,017,528 ordinary shares of RMB1 each	70,018	70,018

NOTE TO FINANCIAL STATEMENTS

31 December 2005

24. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 41 of the financial statements.

(b) Company

	Notes	Capital reserves# RMB'000	Statutory reserves RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2004		70	6,405	10,616	17,091
Profit for the year		–	–	15,537	15,537
Transfer to statutory reserves	11	–	3,615	(3,615)	–
Final 2003 dividend declared	12	–	–	(15,490)	(15,490)
Proposed final 2004 dividend	12	–	–	(18,000)	(18,000)
At 31 December 2004 and 1 January 2005		70	10,020	(10,952)	(862)
Profit for the year		–	–	22,055	22,055
Transfer to statutory reserves	11	–	3,423	(3,423)	–
At 31 December 2005		70	13,443	7,680	21,193

The capital reserves of the Company include non-distributable reserves created in accordance with accounting and financial regulations in the PRC. It could be capitalised into share capital upon approval.

NOTE TO FINANCIAL STATEMENTS

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25. OTHER LONG TERM LIABILITIES

Other long term liabilities as at 31 December 2004 represented government assistances received from the National Development and Reform Commission (國家發展和改革委員會) of RMB3 million and RMB0.8 million in 2001 and 2002, respectively, and an amount of RMB3 million received from Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會) in 2004. The above-mentioned government assistances of RMB6,800,000 in aggregate were granted to Baiao Pharmaceuticals specifically for the construction of a production base at Changping District in Beijing, the PRC. Baiao Pharmaceuticals is required to report the progress of the construction project and the use of such funds on a timely basis. Upon the completion of the construction project and the fulfillment of the specified obligations, either Baiao Pharmaceuticals is required to repay the funds to the government or the funds would be converted into capital of Baiao Pharmaceuticals. In the opinion of the directors, the funds will be repaid by Baiao Pharmaceuticals to the government upon the completion of the construction project and the directors consider that the chance of the funds being converted into capital of Baiao Pharmaceuticals is remote. The balances are classified as non-current liabilities as at 31 December 2004 but as part of other payables and accruals in the current liabilities of the consolidated balance sheet as at 31 December 2005 (note 29) because the construction project will be completed in 2006, when the amounts would become due for repayment and would be repaid on demand.

Balance as at 31 December 2005 represented government assistances received from the following government authorities:

	Notes	Group RMB'000
Zhongguancun of Science and Technology Park Commission (中關村科技園區委員會)	(a)	3,500
Beijing Municipal of Science and Technology Commission (北京市科學技術委員會)	(b)	1,000
		<u>4,500</u>

Notes:

- (a) Government assistance of RMB3,500,000 was granted to Baiao Pharmaceuticals for the development of a project named 蛋白質多肽藥物支撐平臺.
- (b) Represented government assistance of RMB600,000 granted to Baiao Pharmaceuticals for the development of a project named 新型微粒製劑研究開發 and a government assistance of RMB400,000 granted to the Company for the development of a project named 時間分辨螢光免疫技術及診斷.

The directors, after obtaining legal opinion, are in the opinion that both government assistances were granted without any conditions levied and were non-repayable. The balances were classified as non-current liabilities as at 31 December 2005 because the respective projects are expected to complete in 2007.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

26. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables of the Group and the Company as at the balance sheet date, based on the invoice date, is as follows:

	Group 2005 RMB'000	2004 RMB'000	Company 2005 RMB'000	2004 RMB'000
Outstanding balances aged:				
Within 3 months	764	340	131	74
4 to 6 months	79	244	–	33
7 to 12 months	41	9	–	–
1 to 2 years	34	51	16	–
Over 2 years	40	32	–	–
	958	676	147	107

The trade payables are non-interest-bearing and are normally settled on credit terms of 30 to 90 days.

27. BANK BORROWINGS

	Effective interest rate %	Maturity	Group 2005 RMB'000 (notes (a) &(b))	2004 RMB'000	Company 2005 RMB'000 (note (a))	2004 RMB'000
Bank loans – secured, at fixed rates and repayable within one year or on demand	5.58	2006	40,000	–	30,000	–

Notes:

- (a) The Group's bank loans are secured by the Company's land use right in Mainland China and the building erected thereon, with an aggregate carrying value of approximately RMB35,500,000 at the balance sheet date (2004: Nil) (note 14).
- (b) In addition, an independent third party (the "Guarantor") has provided a corporate guarantee of RMB20,000,000 against certain of the banking facilities granted to the Group. As a condition of obtaining the guarantee, the land use right of the subsidiary, Baiao Pharmaceuticals, in Mainland China and the buildings on such land located at the Changping site, with an aggregate carrying value of approximately RMB30,500,000 at the balance sheet date, were pledged to the Guarantor (2004: Nil) (note 14).
- (c) The carrying amounts of these loans approximate to their fair values.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

28. TAXES PAYABLE

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
PRC corporate income tax payable	247	486	264	257
Value-added tax payable	1,069	1,190	381	538
Others	280	370	158	211
	1,596	2,046	803	1,006

29. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Accruals		8,266	9,328	4,159	4,114
Other liabilities	(a) and (b)	28,051	23,118	6,878	12,095
Due to a shareholder	30	4,743	6,143	542	1,842
Dividends payable to shareholders		–	15,490	–	15,490
		41,060	54,079	11,579	33,541

Notes:

- (a) Included in the Group's other liabilities as at 31 December 2005 are certain government assistance of RMB6,800,000 in aggregate received from the National Development and Reform Commission and Beijing Municipal Commission of Development and Reform during the four years ended 31 December 2004. The balances are interest-free, unsecured and have no fixed terms of repayment. Further details of which are set out in note 25 to the financial statements.
- (b) Included in the Group's other liabilities as at 31 December 2004 and 2005 are costs of RMB19,282,000 and RMB17,007,000, respectively, incurred for the construction of office and factory premises of the Group at Changping District, Beijing, the PRC, which remained unpaid as at the respective balance sheet dates.

Included in the Company's other liabilities as at 31 December 2004 and 2005 are costs of RMB8,949,000 and RMB3,654,000, respectively, incurred for the construction of office and factory premises of the Company at Changping District, Beijing, the PRC, which remained unpaid as at the respective balance sheet dates.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

30. DUE FROM/TO A SHAREHOLDER

Amounts due from/to a shareholder are unsecured, interest-free and have no fixed terms of repayment.

The amount due from a shareholder as at 31 December 2004 represented the proceeds from the disposal of an available-for-sale financial asset that remained unpaid by the shareholder as at that date. The amount was fully settled during the year ended 31 December 2005.

The amount due from a shareholder as at 31 December 2005 represented a cash advance paid by Baiao Pharmaceuticals to its shareholder for purchase of certain equipment for the development of a research project jointly carried out by Baiao Pharmaceuticals and the shareholder. The amount remained unpaid as at the date of approval of these financial statements.

31. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at 31 December 2005 (2004: Nil).

32. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 27 to the financial statements.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office and factory premises and warehouses from a shareholder and third parties under operating lease arrangements. Leases for the properties are negotiated for terms ranging from one to two years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases within its tenants falling due as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Within one year	98	51
In the second to fifth years, inclusive	8	19
	106	70

The Company did not have any operating lease commitment as at 31 December 2005 (2004: Nil).

NOTE TO FINANCIAL STATEMENTS

31 December 2005

34. COMMITMENTS

- (i) In addition to the operating lease commitments detailed in note 33 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised, but not contracted for:				
Land and buildings	573	805	573	–
Plant and machinery	3,921	4,920	3,921	4,804
	4,494	5,725	4,494	4,804
Contracted, but not provided for:				
Land and buildings	–	9,326	–	2,634
Plant and machinery	–	513	–	513
	–	9,839	–	3,147
	4,494	15,564	4,494	7,951

- (ii) Pursuant to a research and development cooperation agreement (the "Research and Development Co-operation Agreement") dated 9 August 2004 entered into between the Group and the Institute of Biophysics, a shareholder of the Company, both parties will jointly engage in a pre-clinical research project for the development of a chemical drug, namely, Alprostadiol for Injection. Upon the completion of such pre-clinical research purpose, the Group will have the right to obtain the ownership of the relevant clinical testing certificate and the production licence to be issued thereafter by the State Food and Drug Administration of the PRC, while the Group would be required to pay the Institute of Biophysics an amount equivalent to 50% of the assessed market value of the clinical research rights. According to the Research and Development Co-operation Agreement, the assessed market value of the clinical research rights is subject to a cap of RMB5,000,000. Therefore, the maximum amount of consideration that the Group has to pay to the Institute of Biophysics as compensation will be RMB2,500,000. As at the date of approval of these financial statements, the Group has not made any compensation to the Institute of Biophysics under the aforesaid agreement.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

35. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	NOTES	Group 2005 RMB'000	2004 RMB'000
CONTINUING TRANSACTIONS:			
Rental paid by Baiao Pharmaceuticals in respect of operating lease arrangements of office properties, factory premises and warehouses	(i)	932	932
Water and electricity fees paid by Baiao Pharmaceuticals	(ii)	630	479
Technical service fee paid by the Company	(iii)	500	42
DISCONTINUED TRANSACTIONS:			
Rental paid by the Company in respect of operating lease arrangements of office properties, factory premises and warehouses	(i)	367	1,864
Water and electricity fees paid by the Company	(ii)	74	159
Sale of an available-for-sale financial asset by Baiao Pharmaceuticals	(iv)	–	100

Notes:

- (i) The Group's premises at Haidian District of Beijing, the PRC (the "Haidian Premises") are leased from the Institute of Biophysics, a shareholder of the Company. The rentals were paid based on a mutually agreed terms. In the opinion of the directors, the rentals were determined by reference to the then prevailing open market rentals.
- (ii) Water and electricity fees incurred by the Group at the Haidian Premises were firstly paid by the Institute of Biophysics and reimbursed by the Group subsequently. In the opinion of the directors, the water and electricity fees reimbursed were determined by reference to the then prevailing charges imposed by the relevant government authorities.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

35. RELATED PARTY TRANSACTIONS *(continued)*

- (a) *(continued)*

Notes: (continued)

- (iii) On 9 December 2004, the Institute of Biophysics and the Company entered into an exclusive technology licensing agreement (the "Licensing Agreement") in regard to the production of diagnostic reagents by employing the technologies owned by the Institute of Biophysics (the "Reagent Technologies"). Pursuant to the Licensing Agreement, the Company is required to pay a fee of RMB500,000 per annum to the Institute of Biophysics for 20 years, commencing on the effective date of the Licensing Agreement. In addition, the Institute of Biophysics confirmed that it would not pursue any legal or economic obligations against the Company for using the Reagent Technologies in prior years. In the opinion of the directors, the technical service fee was determined based on negotiation and by reference to the valuation of the Reagent Technologies performed by an independent PRC asset appraisal valuer in August 2000.
- (iv) In July 2004, the Group entered into an equity transfer agreement with the Institute of Biophysics for the sale of an available-for-sale financial asset, which represented the Group's investment in Baixin Hostel, of which the Group held 33.3% equity interest, for a consideration of RMB100,000. There was no gain or loss on the disposal of Baixin Hostel. The transaction was completed in September 2004.
- (b) Pursuant to an agreement dated 11 November 2003 and a supplementary agreement thereto dated 8 June 2005 (collectively the "Cognitive Science Research Agreements") entered into between the Institute of Biophysics and the Group, both parties agreed to collaborate to undertake a scientific research project relating to the cognitive science of primates (monkeys) and the connection between cognitive science and medicine, whereby the Institute of Biophysics was required to bear all the costs in connection with the research project and to provide the Group with a sum of RMB1.8 million to build a primate model for conducting experiments. The sum was received by the Group in December 2003. Pursuant to the Cognitive Science Research Agreements, the Institute of Biophysics shall own all intellectual property rights (including patents) in relation to the primate model and the Group shall be entitled to the right to use such intellectual property rights for free thereafter.

As at 31 December 2004 and 2005, no cost was incurred by the Group for the scientific research project and the amount of RMB1.8 million received from the Institute of Biophysics was included in other payables and accruals in the respective balance sheets.

The Group and the Institute of Biophysics entered into a termination agreement on 21 October 2005 to terminate the Cognitive Science Research Agreements.

- (c) On 9 August 2004, the Group entered into the Research and Development Co-operation Agreement with the Institute of Biophysics for joint engagement in a pre-clinical research project for the development of a chemical drug. Further details are set out in note 34(ii) to the financial statements.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

35. RELATED PARTY TRANSACTIONS *(continued)*

- (d) Pursuant to the research agreement “資助「蚯蚓纖維溶酶口服吸收機理研究」合同” dated 12 October 2004, the Group invited the Institute of Biophysics to carry out research on the oral absorptive mechanism of earthworm plasmin (蚯蚓纖維溶酶口服). The Group would pay a fee of RMB20,000 for each journal article on the above research topic published by the Institute of Biophysics. During the year ended 31 December 2004, no journal article on this research topic had been published by the Institute of Biophysics and thus no payment was made by the Group to the Institute of Biophysics. The Group and the Institute of Biophysics entered into a termination agreement on 19 September 2005 to terminate the research agreement.
- (e) During the year, the Group entered into a research and development co-operation agreement and the supplementary agreement with the Institute of Biophysics for joint engagement in a research project named「新型微粒制劑研究開發」and a cash advance of RMB230,000 was paid by Baiao Pharmaceuticals to the Institute of Biophysics for the acquisition of equipment. Further details are set out in note 30 to the financial statements.
- (f) Transactions with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by stated-owned enterprises. During the two years ended 31 December 2005, other than the Institute of Biophysics, the Group had transactions with certain state-owned enterprises (the “Other SOEs”), including, but not limited to, the sale of finished goods and the purchases of raw materials. The directors consider that the transactions with the Other SOEs was conducted in the ordinary course of the Group’s business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for all its products and such pricing policies do not depend on whether the customers are Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

- (g) Compensation of key management personnel of the Group

	2005 RMB'000	2004 RMB'000
Short term employee benefits	4,819	3,474
Post-employment benefits	52	35
Share-based payments	–	–
Total compensation paid to key management personnel	4,871	3,509

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

36. FINANCIAL INSTRUMENTS

The financial assets of the Group mainly include cash and bank balances, inventories, trade receivables, and other current assets. Financial liabilities of the Group mainly include trade and other payables, amounts due to a shareholder and bank loans.

The carrying amounts of the Group's financial instruments approximated to their fair value as at each of the balance sheet dates. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

37. CONCENTRATION OF RISK

The main risks arising from the Group's financial instruments are business risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Business risk

The Group conducts its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, inter alia, the political, economic and legal environment.

(b) Interest rate risk

During the year ended 31 December 2004, the bank loan obtained by the Group was fully repaid before the year end. At 31 December 2005, the bank loans of the Group and the Company are all fixed rate debts. The Group and the Company have no significant concentration of interest rate risk.

(c) Foreign currency risk

The Group's business are located in Mainland China and all transactions are conducted in RMB, except for the fact that the Company occasionally purchases equipment from overseas countries for resale in Mainland China. However, the purchase amount was not significant. Fluctuations of the exchange rates of RMB against foreign currency is not expected to have significant impact to the results of the Group.

NOTE TO FINANCIAL STATEMENTS

31 December 2005

37. CONCENTRATION OF RISK *(continued)*

(d) Credit risk

The Group's cash and bank balances are mainly deposits with state-owned banks in Mainland China.

The carrying amount of trade receivables, other receivables and cash included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

(e) Liquidity risk

The liquidity risk of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations and on its ability to obtain external financing to finance the working capital of the Group.

38. POST BALANCE SHEET EVENT

On 17 February 2006, the Company undertook a placing of 33,000,000 ordinary H shares in total, comprising 30,000,000 new H Shares and 3,000,000 H shares converted from old domestic shares of the Company, at a placing price of HK\$2.0 per H share for listing on the GEM (the "Placing"). Based on the above, net proceeds raised from the Placing, after deduction of related issue expenses, amounted to approximately HK\$47,300,000 (approximately RMB49,192,000) attributable to the Company.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2006.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interest of the Group for the last three financial years, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	2005 RMB'000	2004 RMB'000	2003 RMB'000
TURNOVER	135,432	121,989	101,068
PROFIT BEFORE TAX	30,447	29,961	27,433
Tax	(3,921)	(4,053)	(3,854)
PROFIT FOR THE YEAR	26,526	25,908	23,579
Attributable to:			
Shareholders of the Company	24,352	23,834	21,342
Minority interest	2,174	2,074	2,237
	26,526	25,908	23,579
ASSETS, LIABILITIES AND MINORITY INTEREST			
TOTAL ASSETS	211,057	179,618	134,966
TOTAL LIABILITIES	(88,114)	(63,601)	(29,367)
Net assets	122,943	116,017	105,599
REPRESENTED BY:			
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	112,660	106,308	97,964
MINORITY INTEREST	10,283	9,709	7,635
TOTAL EQUITY	122,943	116,017	105,599