中生北控生物科技股份有限公司

BIOSINO BIO-TECHNOLOGY AND SCIENCE INCORPORATION*

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

Stock Code : 8247

Solid Foundation

Bright Future

• Annual Report 2006 •

*For Identification Purpose Only

Corporate Mission

Biosino Bio-Tec is dedicated to take the lead in in-vitro diagnostic reagents and pharmaceutical products in China and in the world, and to reach the missions of raising health standard of mankind, leading the community towards a healthy stage.

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.

Contents

PRC OFFICE

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

WEBSITE

http://www.zhongsheng.com.cn
http://baiao.com.cn

BOARD OF DIRECTORS

Chairman and executive Director
Mr. Wu Lebin

Vice Chairman and non-executive Directors
Mr. Zhang Yong
Dr. Gao Guang Xia

Executive Directors
Dr. Wang Lin
Mr. Hou Quanmin

Non-executive Directors
Ms. Li Chang
Mr. Rong Yang
Mr. Wang Fu Gen
Ms. Yu Xiaomin

Independent non-executive Directors
Dr. Cheng Jing
Dr. Hua Sheng
Mr. Chan Yiu Kwong

SUPERVISORS

Dr. He Rongqiao
Mr. Wang Xin
Mr. Shao Yimin

COMPANY SECRETARY

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

QUALIFIED ACCOUNTANT

Mr. Sit Hon Cheong 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
Industrial and Commercial Bank of China
Bank of China (Hong Kong) Limited

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

Group Profile

Biosino Bio-Technology and Science Incorporation ("Biosino Bio-Tec" or "the "Company") is the leading supplier of in-vitro diagnostic reagents in China. The Company and its subsidiaries (collectively referred to as the "Group") is principally engaged in the research and development, manufacture, sale and distribution of in-vitro diagnostic reagents and pharmaceutical products, and providing hospital and other medical institutions with quality and reliable diagnostic reagents and pharmaceutical products. Beijing Baiao Pharmaceuticals Co., Ltd. ("Baiao Pharmaceuticals"), a subsidiary of the Group, 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, thus strengthening the Group for further development.

Shareholders of the Company are having strong background. Our largest shareholder, the Institute of Biophysics of the Chinese Academy of Sciences ("IBP"), is the leading research institution in life sciences; while the second largest shareholder is Beijing Enterprises Holdings High-Tech Development Co., Ltd. ("BEHT") (a subsidiary of Beijing Enterprises Holdings Limited).

The "Biosino" and "Baiao" brands of the Group are well-known in the industry. "Biosino" was awarded as "Renowned Beijing Brand"（北京名牌產品）in 2002 and was awarded "No. 1 Brand with High Quality and Reputation in the In-vitro Diagnostic Reagent Market of the PRC"（中國診斷試劑市場用戶滿意質量信譽第一品牌）in 2005, and it is highly recognised among market users and in the medical sector. The Group adopted an integrated retail and distribution model in marketing, and established an efficient, stable and extensive sales network covering over 30 provinces, cities and municipalities with more than 600 distributors. The Group's diagnostic reagents and Lumbrokinase capsule are well received at domestic hospitals and medical institutions.

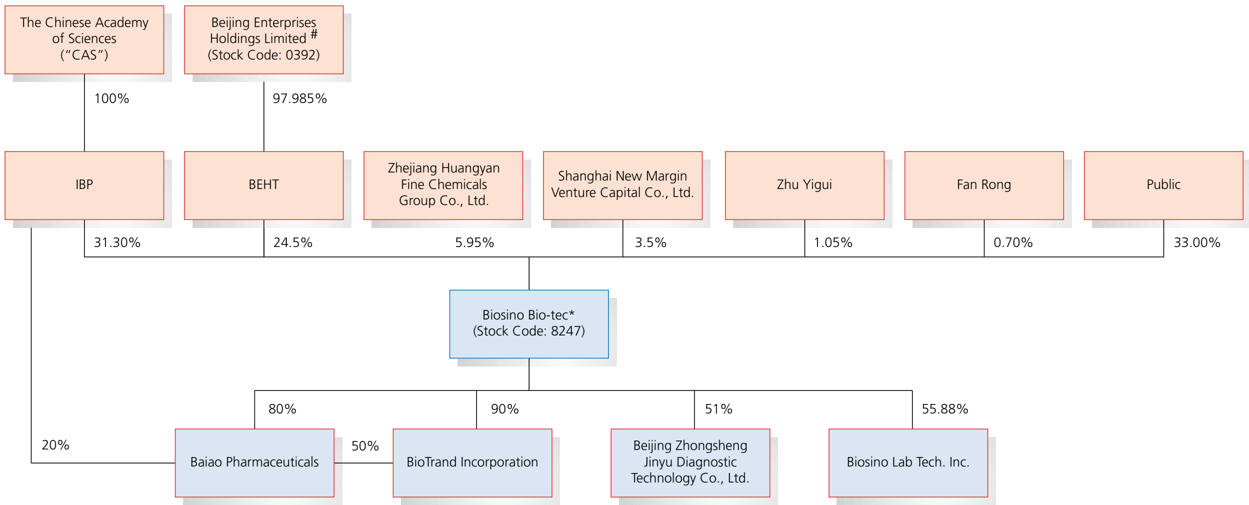
The Group ranked No. 1 in the conventional chemistry reagent market in China. Lumbrokinase capsule is included in the Drugs Catalogue of National Basic Medical Insurance（國家基本醫療保險藥品目錄）and Reimbursable Drugs Catalogue of Public Medical and Labour Insurance in Beijing Municipality（北京市公費醫療、勞保醫療用藥報銷範圍）, showing that the Group's products are highly recognised in the market.

In addition, a number of management members of the Group are professors in universities or holding doctorate degrees. Upholding our business principles of "By people, for people; ceaseless innovation; unquestionable quality pursuing perfection; genuine craftsmanship and ethical management ", our management strives to strengthen our overall competitiveness. Even some of them had research experience in the IBP. The solid scientific research background and ambition of our management, providing firm research foundations of Biosino Bio-Tec, are also advantageous to the long-term business development of the Group.

H shares of the Company have been listed on the Growth Enterprise Market (the"GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 February 2006.

COMPANY STRUCTURE

As at 23 March 2007



* Listed on the GEM of the Stock Exchange

\# Listed on the Main Board of the Stock Exchange

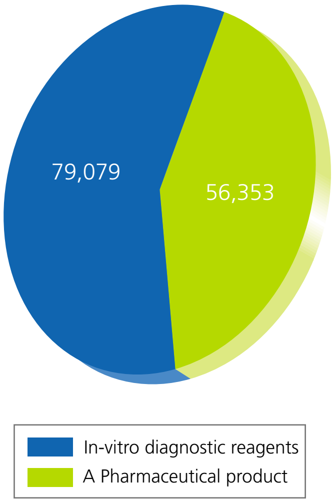
Financial Highlights

- Revenue for the year kept growing to RMB148 million, representing an increase of 9.1% from that of last year.
- Profit attributable to shareholders for the year amounted to RMB20.15 million, representing a decrease of 17.3% from that of last year.
- A final dividend of RMB0.10 per share is proposed for the year ended 31 December 2006.

1. Revenue by product

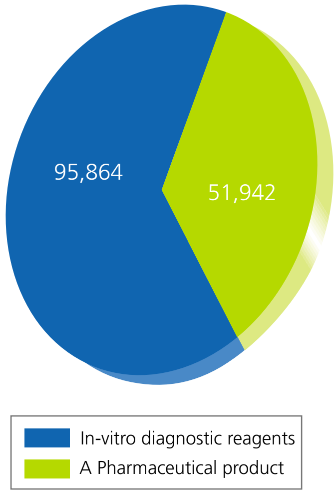
2005

(RMB'000)

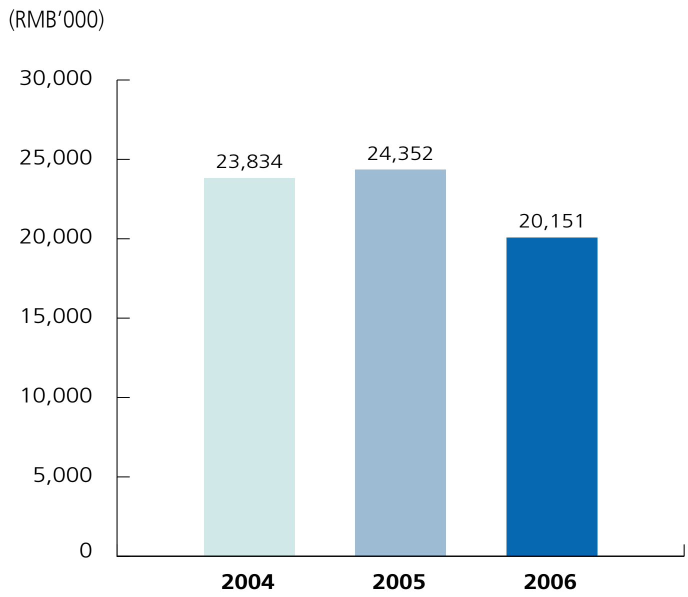


2006

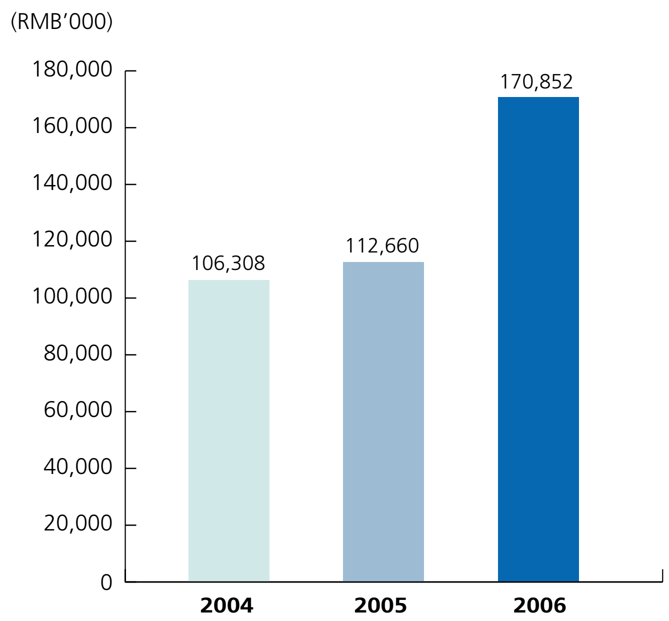
(RMB'000)



2. Profit attributable to shareholders



3. Equity attributable to shareholders



Chairman's Statement

SOLID FOUNDATION, BRIGHT FUTURE

Dear shareholders,

Mr. Wu Lebin, Chairman of the Board

With great pleasure and on behalf of the board of directors (the "Board"), I hereby present to you the annual report of the Biosino Bio-Technology and Science Incorporation (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2006.

It is the Company's objective to maximise the interest of our shareholders through strengthening the sales network, upgrading the research and development capabilities, and consolidating our operating foundation. The successful listing of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 27 February 2006 has marked a milestone of our business development. It provides us with funding for future development and reflects our determination to become the leading researcher and manufacturer of clinical biochemical diagnostic reagents and pharmaceutical products in the People's Republic of China (the "PRC").

Year of 2006 was full of challenges to the Group. The whole industry faced severe challenges under the rectification of the government. Nevertheless, the Group has overcome the difficulties with its concrete development strategy, and has maintained the stability of its business.

FINANCIAL RESULTS

For the year ended 31 December 2006, the revenue of the Group was RMB148 million, representing an increase of 9.1% as compared with last year. Profit from operating activities was RMB31.48 million, representing an increase of 1.8% as compared with last year. Profit attributable to shareholders was RMB20.15 million, representing a decrease of 17.3% as compared with last year. Cash equivalents together with deposit balances at the balance sheet date was approximately RMB155 million, showing a relatively strong capital structure of the Group.

The Group has been actively expanding our existing business and has been devoting more resources to scale up our production capacity and upgrading our technology capabilities. Revenue from sale of in-vitro diagnostic reagents for the year was approximately RMB95.86 million, representing 64.9% of total revenue; when comparing to last year's RMB79.08 million, there was an increase of 21.2%. Despite the volatile market situation, revenue from sale of pharmaceutical product was approximately RMB51.94 million, representing 35.1% of total revenue; when comparing to last year's RMB56.35 million, there was a decrease of 7.8%.

DIVIDENDS

In return for the support of shareholders to the Group and taking into account of the Group's financial condition, cash flow, operating and capital requirements as well as the requirements for sustainable business development in the future, the Board recommended the payment of a final dividend of RMB0.1 per share for the financial year ended 31 December 2006. The Board believes that given its healthy financial condition and cash flow, the Group is capable of maintaining the investment required for continuing development. The Group will make its best endeavours to contribute positive returns to its investors.

BUSINESS REVIEW

In late 2005, the State implemented new policies to rectify the medical industry, thus posing great challenges to the operating environment of the industry and creating a disincentive atmosphere in the market. Under such market conditions, the Group continued to develop its business by aggressively strengthening the management team, adjusting our marketing strategies, improving our existing products and promoting new products. During the year, the Group has commercialised 3 new products.

During the year under review, revenue derived from the in-vitro diagnostic reagent business increased by 21.2% to RMB95.86 million. The growth was mainly driven by the increase in sales volume of the Group's reagent products. The acquisition of Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd., a manufacturer of in-vitro diagnostic reagent, also had a positive impact on the revenue growth. Despite the intense competition in the in-vitro diagnostic reagent market, the Group persisted in expanding its sales network by strengthening its sales force and offering attractive product mix to customers.

To go in step with our business development and to satisfy the increasing market demand, the Group constructed a new manufacturing plant in compliance with GMP standards in the Science and Technology Industrial Park in Changping District, Beijing. 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, laying solid foundations for development of new products. The production line of the pharmaceutical products has also been relocated from the premises rented from the Institute of Biophysics of the Chinese Academy of Sciences to the new manufacturing plant at the end of February 2006. With the new manufacturing plant, the production capacity of diagnostic reagents and Lumbrokinase capsules is increased by approximately 4 times and 3.6 times respectively. In addition, the new manufacturing plant has been accredited with the ISO certification and has implemented environmental purification and ERP management system to ensure the quality of our products.

Our performance for the year was not only reflected on the financial results, but also our ability for continuous development. We set up subsidiaries and undertook government plans and projects to enhance our innovation ability and expand the product range, thus laying solid foundations for development of new products and new markets. I believe that fruitful result will come in the foreseeable future. Meanwhile, the Group has been dedicated to maintain and enhance its corporate governance to ensure all decisions made by the Group are in the interests of the shareholders as a whole and maximize the returns for them.

PROSPECT

Medical industry is one of the industries with the highest growth rate in China. Prosperous economic growth raises people's living standard and health awareness, together with factors such as growing population, longer life expectancy and aging population, the demand for diagnostic and pharmaceutical products in China has increased substantially. This enlarged the diagnostic and pharmaceutical products market and brought enormous business opportunities to the Group, and in return bringing us greater profit. In addition, the PRC government implemented the Basic Medical Insurance Programme to encourage employers and employees to establish a comprehensive medical insurance system. Such policy will drive up the demand for medicine used for both treatment and prevention. Since 2006, the PRC government has been focusing on the innovation of enterprises. It encouraged the enterprises to develop according to the market trend and the construction of a system embracing manufactures, studies and researches. The aforesaid favorable factors will present the Group with ample opportunities.

Although the revenue for the year was affected by the recent rectification measures taken by the government in the medical industry, the directors of the Company believe that the measures will benefit the Group in the long run, as it will protect the Group's pharmaceutical business from substandard practices in the market.

Looking forward, the Group will continue to receive and introduce state-of-the-art technology from international clinical sector, and conglomerate the technology with our strength to innovate, explore new products, so as to upgrade our core competitiveness. Currently, the Group has already entered some of the markets of South-east Asia. The Group, with the effort of our staff, will uphold spirit of cooperation, working with integrity and unity to upgrade our capability, so as to make our products a renowned brand in the world.

The Board is confident about our future business development, and I sincerely hope that we can maximize the return for all of our shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express our deep gratitude towards all of our shareholders and business partners for their guidance and support, and all of our staff of the Group for their valuable contribution and dedication during the year. I am confident that with our joint effort, we can overcome any new challenges and achieve a better result in the future.

By order of the Board

Wu Lebin
Chairman

Beijing, the People's Republic of China
23 March 2007

BUSINESS ENVIRONMENT

Following the reformation of medical system in China, prices of pharmaceutical products kept on decreasing. In addition, following China's accession to the World Trade Organisation, medical and pharmaceutical industry in China is facing the most intense competition than ever before, profit margin is decreasing gradually. Nevertheless, the Group, with the leading role in in-vitro diagnostic reagents and pharmaceutical product industry, has its competitive edge in the intense market.

On the other hand, the growing population, aging problem and rising pharmaceutical consumption in China have facilitated the rapid development of the medical and pharmaceutical industry, making the country one of the fastest growing diagnostic reagent markets in Asia. As a leading clinical diagnostic reagents and biochemical pharmaceutical product manufacturer in China, the Group is expected to keep expanding its business.

BUSINESS REVIEW

Revenue

Currently, the Group's major products include i) 60 types of State Food and Drug Administration of the PRC ("SFDA") - approved in-vitro diagnostic reagents (including 47 types of biochemical in-vitro diagnostic reagents and 13 types of immuno in-vitro diagnostic reagents) and ii) Lumbrokinase capsule, a SFDA-approved Class II prescription new drug. In 2006, the Group's consolidated revenue amounted to approximately RMB148 million, representing an increase of 9.1% from that of last year, primarily attributable to an increase in the sale of diagnostic reagents and quick diagnostic reagents. In particular, the revenue of in-vitro diagnostic reagents increased by 21.2% to RMB95.86 million from that of last year, accounted for 64.9% of the total revenue. In terms of pharmaceutical product, the sale of Lumbrokinase capsules was affected by the price adjustment in the market and government's rectification measures in medical industry, as a result, the revenue decreased by 7.8% to RMB51.94 million in 2006.

Research and Development Costs

The Group has completed a total of 4 research and development projects including i) the preliminary laboratory research and development for C-Reaction protein rapid testing card, which has been completed and the registration of which is expected to be completed in the first half of 2007; ii) the registration certificate of SFDA for β2-microglobulin diagnostic reagent has been obtained; iii) the pre-clinical research of Alprostadil injection has been completed and a registration application has been filed to SFDA; and iv) the registration to SFDA for Pancreatic Kininogenase raw material has been completed. The clinical experiments of Pancreatic Kininogenase capsule and the establishment of antibody substances research laboratory have been commenced. Total research and development costs for the year amounted to RMB9.38 million, representing an increase of 24.5% as compared with that of last year. The increase in research and development costs was mainly due to the expansion of research and development capacity and the increase of research projects.

BUSINESS REVIEW *(continued)*

Profit Attributable to Shareholders

The Group's profit attributable to shareholders for 2006 was approximately RMB20.15 million, representing a decrease of 17.3% from that of last year. The decrease was mainly due to industry fluctuation which in turn affected the Group's business. In addition, the commencement of new plant raised the depreciation, resulting in a decrease of profit attributable to shareholders.

Production Facilities

In March 2006, the Company has moved to its new plant, located in the Science and Technology Industrial Park, Changping District, Beijing, of which 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. With the new manufacturing plant, the production capacity of diagnostic reagents and Lumbrokinase capsules is 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.

PROSPECT AND FUTURE OUTLOOK

The Group believes the diagnostic reagents and pharmaceutical products market of China is under fierce competition while it is developing rapidly. The Group will continue to conduct research, develop and sell in-vitro diagnostic reagents and pharmaceutical products relating to protein, stick to the latest technology of diagnostic reagents and biochemical pharmaceutical products, so as to maintain our competitiveness and generate greater return for our shareholders.

In view of the rapid economic growth of China, demand for health 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 created a generous medical market, with boundless business opportunities.

Meanwhile, the PRC Government proactively promotes health awareness and social medical insurance, requiring employers and employees to make monthly mandatory contributions calculated based on the salary, this increases demand for pharmaceutical products of disease therapy and prevention. Since 1999, participants of Basic Medical Insurance Programme was increased in fold times. Compliance with the full enforcement of medical insurance system, demand for pharmaceutical products will well exceed the current one, offering plenty of opportunities in medical industry.

PROSPECT AND FUTURE OUTLOOK *(continued)*

As a leading enterprise of diagnostic reagents and biochemical pharmaceutical product in China, the Group understands there is plenty of challenges in the market, we will continue the work in research and development of diagnostic reagents and biochemical pharmaceutical product so as to expand the business and consolidate our leading role in the industry. The Group believes that, with the effort of our staff and by increasing the capability, the Group is capable to make our products a renowned brand in the world, and generate greater wealth for its shareholders.

CAPITAL STRUCTURE

During the year under review, 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 RMB1.0 for listing on the GEM (the "Placing") of the Stock Exchange on 27 February 2006.

LIQUIDITY AND FINANCIAL POSITION

	2006 year end ***RMB million***	2005 year end *RMB million*
Cash	**155**	38
Short-term loans	**10**	40
Long-term loans	**80**	–
Net cash/(debt)	**65**	(2)
Net debt equity ratio	**N/A**	1.76%

The Group generally financed its operations with internally generated cash flows, capital contributions from shareholders and bank borrowings. Cash position increased by approximately RMB117 million, which was mainly due to the following reasons:

1. The gross proceeds from the issue of shares in the Placing amounted to approximately RMB48 million.

2. The net increase in bank borrowings by RMB50 million.

FOREIGN CURRENCY RISK

The Group's business are located in Mainland China and all transactions are conducted in Renminbi, 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 Renminbi against foreign currencies are not expected to have significant impact on the results of the Group.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2006, the Group's bank loans were secured by the Group's land in Mainland China and building erected thereon, with an aggregate carrying value of approximately RMB55,654,000 at the balance sheet date.

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

1. The Group's bank loans were secured by the Group's land in Mainland China and building erected thereon, with an aggregate carrying value of approximately RMB66,000,000 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.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no any contingent liabilities.

EMPLOYEES

As at 31 December 2006, the Group had a total of 511 full-time employees (2005: 407 employees) based in Hong Kong and China. The total staff costs of the Group (including the directors' remunerations) for the year ended 31 December 2006 amounted to approximately RMB26.85 million (2005: RMB22.73 million). The Group fixes and reviews the emoluments of its staff and directors based on their 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 of the Company 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business objectives as set out in the prospectus of the Company with actual business progress for the period from the date of commencement of dealings in the shares on the GEM to 31 December 2006.

Business Objectives	Actual Business Progress
Expanding research and development effort in product development:	
– Complete formula enhancement of Creatine Kinase Isoenzyme MB control serum	– The formula enhancement of Creatine Kinase Isoenzyme MB control serum has been completed
– Complete research and development of fecal occult blood rapid testing card and Adenosine Deaminase liquid double reagent kit, and file registration applications to the SFDA	– The research and development of fecal occult blood rapid testing cards has been completed, and has filed a registration application to SFDA – The registration procedures of Adenosine Deaminase liquid double reagent kit has been completed
– Commence studies and research planning of (i) ß 2-microglobulin diagnostic reagent for the diagnosis of kidney conditions, urethra infections, tumour and immune disease; (ii) CRP rapid testing card for the diagnosis of cardiac related disease; (iii) Angiotensin converting enzyme (ACE) kit for the diagnosis of chronic fatigue and immune dysfunction syndrome and urethra infectors; and (iv) Lipase diagnostic reagent for the diagnosis of acute pancreatitis	– The research and development of β2-microglobulin diagnostic reagent and ACE has been completed – The preliminary laboratory research and development of CRP rapid testing card has been completed – The Group has initiated & carried out enhancement of the standard operation procedures for the reagent kit and commenced other research and development projects this year, and the research and development progress of Lipase diagnostic reagents will be put on hold
– Complete formula enhancement for γ-Glutamyltransferre ("γ-GT") and Alkaline phosphatase (ALP) liquid in-vitro diagnostic reagents	– The enhancement of γ-GT and ALP liquid in-vitro diagnostic reagent has been completed

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(continued)*

Expanding research and development effort in product development *(continued)***:**

Business Objectives	Actual Business Progress
– Continue the pre-clinical research of Lumbrokinase injection for cerebral vascular diseases, Aprotinin injection for extracorporeal circulation cardiac operation under direct vision and other operations and Pancreatic Kininogenase capsule	– The pre-clinical research of Pancreatic Kininogenase capsule have been completed and is now in the clinical testing stage
	– The conduction of pre-clinical pharmacology research of Lumbrokinase injection and Aprotinin injection is still in progress
– Commence clinical experiment and development of Alprostadil injection and Lumbrokinase injection	– The pre-clinical research of Alprostadil injection has been completed and a registration application has been filed to the SFDA
	– Due to the change in market conditions, the Group believes current market responses for, and the potential market of, Pancreatic Kininogenase capsule and its products are better than Lumbrokinase injection, therefore, the Group shifted its research and development resources to the aforesaid products and the research and development progress of Lumbrokinase injection will slow down
– Enhancement of CRP rapid testing card and ß 2-microglobulin diagnostic reagent	– The preliminary laboratory research and development for CRP rapid testing card has been completed and the registration is expected to be completed in the first half of 2007
	– The registration certificate of the SFDA for ß 2-microglobulin diagnostic reagent has been obtained

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(continued)*

Business Objectives	Actual Business Progress
Expanding research and development effort in product development *(continued)***:**	
– Research development and enhancement of Homocysteine diagnostic reagent, for the diagnosis of cardiac and cerebrovascular related disease and Lipase diagnostic reagents	– The Group has initiated & carried out enhancement of the standard operation procedures for the reagent kit and commenced other research and development projects this year, and the research and development progress of Lipase diagnostic reagents will be put on hold – Actively seeking partner to jointly conduct the research and development of Homocysteine diagnostic reagent
– Commence clinical experiment of Pancreatic Kininogenase raw material and Pancreatic Kininogenase capsule	– The registration to the SFDA for the Pancreatic Kininogenase raw material has been completed – The clinical experiment of Pancreatic Kininogenase capsule has been commenced
– Commence the establishment of antibody substances research laboratory	– The establishment of antibody substances research laboratory has been commenced
Enhancing the existing PRC sales network and exploring business opportunities in other Asian countries:	
– Employ overseas distributors to promote the Company's diagnostic reagents and pharmaceutical products	– Small quantity of diagnostic reagent products has been marketed to Indonesia and Malaysia etc. through overseas distributors – For pharmaceutical product, the group has extended the market of Lumbrokinase capsule to USA, Japan and Indonesia
– Host conferences and forums in other Asian countries such as Malaysia, India and Vietnam	– At the current stage, the Group has participated in the Exhibition of HOSPIMedica ASIA 2006 in Singapore on the 10-12 of October this year and staff were sent to countries, such as Malaysia, for expedition
– Prepare for the launching of γ-GT liquid diagnostic reagents and Alkaline phosphatase (ALP) diagnostic reagents	– The γ-GT liquid diagnostic reagents and ALP diagnostic reagents have been launched

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(continued)*

Business Objectives	Actual Business Progress
Introducing new products periodically:	
– Complete product enhancement, obtain SFDA registration certificates and commercial launch of Lipoprotein (a), Microalbumin CK-MB in-vitro diagnostic reagents	– The enhanced reagents of Lipoprotein (a), Microalbumin, CK-MB in-vitro diagnostic reagents have been launched to the market
– Obtain SFDA's registration certificate and commence production of fecal occult blood rapid testing card and Adenosine Deaminase liquid reagent and α-Amylase double liquid reagent kit	– SFDA registration certificates for Adenosine Deaminase liquid reagent and α-Amylase double liquid reagent kit have been obtained, production is underway and promotion activities are on-going
	– A registration application for fecal occult blood rapid testing cards has been filed to the SFDA, and it is expected to be launched to the market in the first half of 2007
– Conduct academic promotional activities for Octreotide Acetate injection and Pentoxifylline capsules, and the commercial launch of Pentoxifylline entericcoated capsules	– In view of the changes in market environment of pharmaceutical product business due to the implementation of new policies by the state, the Group believes that resources should be put in consolidating the market share of its existing products. Therefore, promotions of new products will be put on hold
– Obtain SFDA's registration certificate and commence production of γ-GT liquid and ALP formula	– The SFDA's registration certificates for γ-GT liquid and ALP liquid formula have been obtained
– Commence production and sales of fecal occult blood rapid testing cards	– A registration application for fecal occult blood rapid testing cards has been filed to the SFDA, and it is expected to be launched to the market in the first half of 2007

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(continued)*

Business Objectives	Actual Business Progress
Expanding production facilities/capacity:	
– Lumbrokinase production lines relocated to the Changping Site	– The relocation has been completed. As such, the production capacity of Lumbrokinase capsule increased significantly
– Obtain GMP certification for pharmaceutical products production facilities in the Changping Site	– The SFDA has granted GMP certification for the production facilities of pharmaceutical products in the Changping Site
– Arrange GMP certification of in-vitro diagnostic reagent manufacturing facilities	– The application for GMP certification of in-vitro diagnostic reagent manufacturing facilities has not been commenced, and it is expected to be commenced in the second half of 2007
Forming strategic alliances:	
– Explore business opportunities in major hospitals and testing institutions with bio-chemical analysers manufacturers in the PRC	– The Company has successfully allied with two new business partners to promote its reagent products
– Continue seeking strategic alliances with bio-chemical diagnostic reagent manufacturers to explore business opportunities in the PRC and overseas market	– New clients have been successfully found in Hong Kong, Malaysia and Indonesia respectively

USE OF PROCEEDS

The actual use of proceeds for the period from the date of commencement of dealings in the shares on the GEM to 31 December 2006, as compared to the amount set out in the section headed "Reasons for the Placing and the Use of Proceeds" of the Company's prospectus, is summarised as follows:

	Proposed HK'000	**Actual** HK'000
Expanding research and development effort in product development	8,800	7,223
Enhancing existing PRC sales network and exploring business opportunities in other Asian countries	3,900	3,988
Product promotion	800	800
Expanding production facilities/capacity	–	–
Working capital	720	720
Total	14,220	12,731

INTRODUCTION

The Company puts strong emphasis on the superiority, steadiness and rationality of corporate governance. However, in the opinion of the board of directors of the Company (the "Board"), because of the Company was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 February 2006, therefore, the Company may not fully comply with the code provisions in the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the GEM Listing Rules of the Stock Exchange throughout the financial year ended 31 December 2006. Saved as disclosed above, 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 maximise the interests of shareholders during the period under review.

THE BOARD OF DIRECTORS

During the year of 2006, the Board mainly comprised twelve directors, including the chairman, executive directors, non-executive directors, and independent non-executive directors. Each of the directors and supervisors (including the non-executive directors and independent non-executive directors) has entered into a service contract with the Company for a term of three years. The Board 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 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, 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, knowledge and execution ability to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members.

During the year of 2006, chairman 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. One of them acting as the president of the Company is always responsible for the management of the Group's day-to-day operation, such as production, operation, and financial management. Another executive director is appointed as the research and technical consultant of the Company.

Six 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 2006.

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

THE BOARD OF DIRECTORS *(continued)*

During the year of 2006, the Board held totally six meetings, one of which was a regular meeting. The average attendance rate reached 91.29%. The details of the Boards' meetings and the attendance rate of directors are as follows:

Date of board of directors' meeting	Total number of directors	Number of directors present	Attendance rate
10 February 2006	11	11	100%
26 March 2006	11	9	81.82%
9 May 2006	11	10	90.91%
29 May 2006	12	9	75%
8 August 2006	12	12	100%
9 November 2006	12	12	100%

Name of directors	Number of meetings attended
Dr. Rao Zihe (Chairman and non-executive director, resigned on 9 January 2007)	5/6
Mr. Wu Lebin (Executive director)	6/6
Mr. Zhu Yigui (Executive director, resigned on 9 January 2007)	6/6
Mr. Hua Jiaxin (Non-executive director, resigned on 29 May 2006)	3/4
Mr. Zhang Yong (Non-executive director, appointed on 1 July 2006)	2/2
Dr. He Rongqiao (Non-executive director, resigned on 9 January 2007)	5/6
Ms. Li Chang (Non-executive director)	6/6
Mr. Rong Yang (Non-executive director)	6/6
Mr. Wang Fu Gen (Non-executive director, appointed on 1 July 2006)	2/2
Ms. Yu Xiaomin (Non-executive director)	6/6
Prof. Yang Zhenhua (Independent non-executive director, resigned on 9 January 2007)	5/6
Dr. Hua Sheng (Independent non-executive director)	4/6
Mr. Chan Yiu Kwong (Independent non-executive director)	5/6

CHAIRMAN AND PRESIDENT

During the year of 2006, 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 of the Company is responsible for the day-to-day operations of the Group.

STOCK EXCHANGE OF THE DIRECTORS AND SENIOR MANAGEMENT

On 10 February 2006, the Group has adopted, by way of a resolution of the Board, 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 compile 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 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 making recommendations to the Board on 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.

During the year of 2006, members of the remuneration committee include all independent non-executive directors, Prof. Yang Zhenhua (resigned on 9 January 2007), Dr. Hua Sheng and Mr. Chan Yiu Kwong, with Dr. Hua Sheng as the chairman of the remuneration committee.

The remuneration committee meets regularly to determine the policy for the remuneration of directors and assess performance of executive directors and certain senior management of the Company. During the year of 2006, one remuneration committee meeting was held, the individual attendance of each member is set out below:

Name of directors	**Number of meetings attended**
Prof. Yang Zhenhua (resigned on 9 January 2007)	1/1
Dr. Hua Sheng	1/1
Mr. Chan Yiu Kwong	1/1

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 approved the establishment of the audit committee on 10 February 2006 comprising three non-executive directors, namely Prof. Yang Zhenhua (resigned on 9 January 2007), 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.

The audit committee meets quarterly to review the reporting of financial and other information to shareholders, the effectiveness and objectivity of the internal control process, and also reviewed all the quarterly and half yearly results. The audit committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

During the year ended 31 December 2006, four audit committee meetings were held and the individual attendance of each member is set out below:

Name of directors	Number of meetings attended
Prof. Yang Zhenhua (resigned on 9 January 2007)	4/4
Dr. Hua Sheng	3/4
Mr. Chan Yiu Kwong	4/4

The audit committee, including independent non-executive directors of Dr. Cheng Jing (appointed on 9 January 2007), Dr. Hua Sheng and Mr. Chan Yiu Kwong, has reviewed the annual results, financial position, internal control and the management issues of the Company for the year ended 31 December 2006.

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.

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 43.

The directors of the Company have confirmed that the preparation of the Group's financial statement is in compliance with the relative regulations and applicable accounting standards. The directors of the Company 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 quarterly 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 potential risk.

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 2006 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.

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.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 97.

The directors recommend the payment of a final dividend of RMB0.1 per ordinary share in respect of the year to shareholders on the register of members on 18 May 2007. 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 Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in February 2006, after deduction of related issuance expenses, amounted to approximately HK$48,000,000. These proceeds were applied during the year ended 31 December 2006 in accordance with the proposed applications set out in the Company's listing prospectus. Details of use of proceeds are set out on page 20 in the annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years is set out on page 98. This summary does not form part of the audited financial statements.

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

Details of movements in the Company's share capital during the year are set out in note 24 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, in accordance with the Company Law of the PRC, an amount of approximately RMB18,113,000 standing to the credit of the Company's capital reserves account, and an amount of approximately RMB16,075,000 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 detailed in note 25(b) to the financial statements, retained profits of approximately RMB23,786,000 as at 31 December 2006.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 25% of the total sales for the year and sales to the largest customer included therein amounted to 9%. Purchases from the Group's five largest suppliers accounted for 42% of the total purchases for the year and purchases from the largest supplier included therein amounted to 22%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

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	(Resigned on 9 January 2007)

Chairman and executive director:

Mr. Wu Lebin

Executive directors:

Mr. Zhu Yigui	(Resigned on 9 January 2007)
Dr. Wang Lin	(Appointed on 9 January 2007)
Mr. Hou Quanmin	(Appointed on 9 January 2007)

Non-executive directors:

Mr. Hua Jiaxin	(Resigned on 29 May 2006)
Mr. Zhang Yong	(Appointed on 1 July 2006)
Dr. Gao Guang Xia	(Appointed on 9 January 2007)
Dr. He Rongqiao	(Resigned on 9 January 2007)
Ms. Li Chang	
Mr. Rong Yang	
Mr. Wang Fu Gen	(Appointed on 1 July 2006)
Ms. Yu Xiaomin	

Independent non-executive directors:

Prof. Yang Zhenhua	(Resigned on 9 January 2007)
Dr. Cheng Jing	(Appointed on 9 January 2007)
Dr. Hua Sheng	
Mr. Chan Yiu Kwong	

Supervisors:

Dr. Yan Xiyun	(Resigned on 9 January 2007)
Dr. He Rongqiao	(Appointed on 9 January 2007)
Mr. Wang Xin	
Mr. Shao Yimin	

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from the independent non-executive directors annual confirmations of their independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") of the GEM, and as at the date of this report, the board of directors of the Company 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.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors, supervisors and the senior management of the Company are set out on pages 34 to 42 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. 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' INTEREST 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, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the interest and short positions of the directors or supervisors in the shares and underlying shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as 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, were as follows:

Long position in shares of the Company

Name of director	Type of interest	Number of the Company's domestic shares held	Percentage of the Company's domestic shares	Percentage of the Company's total registered share capital
Zhu Yigui *(Note)*	Personal	1,050,263	1.6	1.05

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

Save as disclosed above, as at 31 December 2006, none of the directors or supervisors had any interests or short position in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), that was required to be recorded 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 Listing Rules) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights as at 31 December 2006.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December, 2006, as far as is known to any directors or supervisors of the Company, the following persons (other than directors, supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company were recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares

Name of person	Nature of interest	Number of the Company's domestic shares held	Percentage of the Company's domestic shares	Percentage of the Company's total register capital
Institute of Biophysics of the Chinese Academy of Sciences	Domestic shares	31,308,576	46.7	31.3
Beijing Enterprises Holdings High-Tech Development Co., Ltd. ("BEHT")	Domestic shares	24,506,143	36.6	24.5
Beijing Enterprises Holdings Limited ("BEHL") *(Note)*	Domestic shares	24,506,143	36.6	24.5

Note:

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, as at 31 December 2006, no person, other than the directors or supervisors 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 that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

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 listed on the GEM of the Stock Exchange on 27 February 2006, therefore, the Company may not fully comply with the code provisions in the Code on Corporate Governance Practice as set out in Appendix 15 of the GEM Listing Rules of the Stock Exchange throughout the financial year ended 31 December 2006. Saved as the above, 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.

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.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors who 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 Listing Rules.

COMPLIANCE ADVISOR'S INTEREST

As updated and notified by the Company's compliance advisor, Partners Capital International Limited (the "Compliance Adviser"), neither the Compliance Adviser, nor 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 2006 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 to 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 system. The audit committee consists of three independent non-executive directors. The Group's consolidated results of 2006 have been reviewed by the audit committee with the three independent non-executive directors of the Company, namely Dr. Cheng Jing (appointed on 9 January 2007), Dr. Hua Sheng and Mr. Chan Yiu Kwong.

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

Wu Lebin
Chairman

Beijing, the People's Republic of China
23 March 2007

To all shareholders,

Since the incorporation of the Company, the supervisory committee 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 2006 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 2006. It is expected that the Company will spare more efforts in getting continuous revenue growth, exercising better cost control and risk management. In 2007, 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 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

He Rongqiao
Chairman of the Supervisory Committee

Beijing, the People's Republic of China
23 March, 2007

DIRECTORS

Chairman of the Board

Dr. Rao Zihe（饒子和博士）, aged 56, is the Chairman and a non-executive Director of the Company. Dr. Rao was appointed 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, Australia with a PhD degree in science 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 academician 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 People's Republic of China, and was accredited as the honourable Cheung Kong scholar（榮譽長江學者）and the academician of the Third World Academy of Science（第三世界科學院院士）in 2004. Dr. Rao is currently the headmaster of the Nankai University in Tianjin, and was 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, 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 Biophysical 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）, a 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）and 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）. 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 appointed by the IBP as its representative on the Board. Dr. Rao joined the Company in September 2003 and resigned in January 2007.

Mr. Wu Lebin（吳樂斌先生）, aged 44, is an executive Director and 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 due to the rotation requirement 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 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 from his position in the IBP was officially approved by the CAS in June 2005. Mr. Wu joined the Company in April 2001 and has been the chairman of the Company since January 2007.

DIRECTORS *(continued)*

Vice Chairman and Executive Director

Mr. Zhu Yigui（朱以桂先生）, aged 69, is the vice chairman and an executive Director of the Company, and was formerly the general manager of the Company from 2001 to 2003. Mr. Zhu is mainly 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 in recognition of his outstanding contribution during the Eighth Five-Year Plan. Mr. Zhu possesses over 40 years of experience in medical and scientific 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 and resigned in January 2007.

Vice Chairman and Non-executive Director

Mr. Hua Jiaxin（華家新先生）, aged 52, is the vice chairman and a non-executive Director of the Company. Mr. Hua was appointed by the Company as a director of Baiao Pharmaceuticals in March 2005. Mr. Hua graduated from 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 Beijing Enterprises Holdings Limited, 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 Beijing Jianguo Hotel（建國飯店）. Mr. Hua is currently the vice chairman of Beijing Enterprises Holdings Water Co., Ltd.（北京北控水務有限公司）. Mr. Hua was appointed by BEHT as the representative on the Board. Mr. Hua joined the Company in December 2004 and resigned in May 2006.

Mr. Zhang Yong（張勇先生）, aged 40, is the vice chairman and a non-executive Director of the Company. Mr. Zhang graduated from the Business School of Zhejiang University（浙江大學）with a master's degree in business administration. He was the deputy division head of the financial assets department of China Petrochemical Corporation, the manager of the investment development department and deputy general manager of Beijing Enterprises Holdings Investment Management Co., Ltd. and the general manager of Beijing Enterprises Holdings Water Co., Ltd. Mr. Zhang is currently the vice chairman and general manager of BEHT and was appointed as its representative on the Board. Mr. Zhang joined the Company in May 2006.

Dr. Gao Guang Xia（高光俠博士）, aged 41, is the vice chairman and a non-executive Director of the Company. He is currently working in the IBP as a researcher, an assistant to head of the institute and a tutor of doctorate programme. Dr. Gao graduated from Peking University in 1988 with a bachelor of science degree, majoring in biochemistry, and obtained a doctoral degree from Department of Biochemistry of Columbia University, the United States in 1995. Dr. Gao was a postdoctor fellow in the Howard Hughes Medical Institute of Columbia University, the United States from 1995 to 1999 and was appointed as an Associate Research Scientist in Department of Biochemistry of Columbia University, the United States from 1999 to 2001. Since 2001, Dr. Gao has participated as a researcher in the "One Hundred Talent Project"（百人計劃）of the CAS. Dr. Gao was awarded sponsorship from the "National Outstanding Youth" Foundation in 2002. Dr. Gao joined the Company in January 2007 and was appointed as a non-executive Director and the vice chairman of the Company. He was also appointed by the IBP as its representative on the Board.

DIRECTORS *(continued)*

Executive Directors

Dr. Wang Lin（王琳博士）, aged 39, is the vice president of the Company and the general manager of BioTrand Incorporation（北京百川飛虹生物科技有限公司）, a subsidiary of the Company. Dr. Wang is mainly 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 and obtained a Ph.D. degree in biochemistry from University of Wisconsin-Madison, the United States in 1997. Subsequently, Dr. Wang conducted postdoctoral researches 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 of the CAS. Dr. Wang has published a number of articles in various journals such as Journal of Cell Biology, Journal of Biological Chemistry and BMC Neuroscience. Dr. Wang joined the Company in September 2005 and was appointed as the executive Director of the Company in January 2007.

Mr. Hou Quanmin（侯全民先生）, aged 40, is the vice president of the Company and the director and general manager of Baiao Pharmaceuticals. Mr. Hou is responsible for the overall management of Baiao Pharmaceuticals. Mr. Hou possesses over 14 years of experience in technological development and management. Mr. Hou graduated 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. He then worked in the Beijing Detector Instrument Factory（北京檢測儀器廠）from 1988 to 1990 and was engaged in technical work. He was 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, Zhangjiakou City, Hebei Province in 1996. Since 1999, Mr. Hou has been the general manager of Baiao Pharmaceuticals. In recognition of the successful management, Mr. Hou was awarded an honourable certificate on professional management innovation award（職業經理管理創新獎）by the Professional Managerial Research Centre（職業經理研究中心）in 2003. Mr. Hou joined the Company in March 2002. He was appointed as the executive Director of the Company in January 2007 and resigned from the post of vice president of the Company.

DIRECTORS *(continued)*

Non-executive Directors

Dr. He Rongqiao (赫榮喬博士), aged 52, 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 1982, the Institute of Microbiology, the CAS with a master's degree in science in 1986, and the IBP with a Ph.D. degree in 1990. Dr. He has worked at the University of Bristol, the United Kingdom in 1996, University of Pisa, Italy in 1999 and New York State Institute for Basic Research in Developmental Disabilities, the United States during the period from 1996 to 2001. Dr. He is currently the deputy director of the IBP, the administrator of the "Brain and Cognitive Sciences Center" of the IBP (生物物理所「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 Biophysical Society of China, the vice administrator of Professional Committee of the Neural Science (神經科學專業委員會) of the Biophysical Society of China (中國生物物理學會) and 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》). He was 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. Dr. He acted as a member of the "Medical Molecular Biophysics Magazine" (《醫學分子生物學雜誌》) committee in January 2005. Dr. He joined the Company in September 2003 and was appointed by the IBP as its representative on the Board. Dr. He resigned as a non-executive Director of the Company in January 2007 and was appointed as a supervisor of the Company.

Ms. Li Chang (李暢女士), aged 40, is a non-executive Director of the Company and was appointed by the Company as the director of Baiao Pharmaceuticals in September 2003. Ms. Li graduated from University of Electronic Science and Technology of China (中國電子科技大學) with a master's degree in electronics in 1989, 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 vice general manager of BEHT and was appointed by BEHT as its representative on the Board. Ms. Li joined the Company in September 2003.

Mr. Rong Yang (榮洋先生), aged 46, 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. Mr. Rong has been the assistant to the general manager of BEHT since 2003 and was appointed by BEHT as its representative on the Board. Mr. Rong joined the Company in December 2004.

DIRECTORS *(continued)*

Non-executive Directors *(continued)*

Mr. Wang Fu Gen (王福根先生), aged 43, is a non-executive Director of the Company. Mr. Wang is an engineer. Mr. Wang studied a post-graduate course in economics and management at Zhejiang University (浙江大學). He was the head of sales and quality control departments of Zhejiang Huangyuan Fine Chemicals Group Co., Ltd. (浙江黃岩精細化學品集團有限公司) Mr. Wang is currently the general manager of Linhai Jiangnan Pharmaceutical Chemicals Factory, the director and deputy general manager of Zhejiang Excel Pharmaceutical Co., Ltd. (浙江精進藥業有限公司) Mr. Wang joined the Company in May 2006 and was appointed representative of Zhejiang Huangyuan Fine Chemicals Group Co., Ltd. on the Board.

Ms. Yu Xiaomin (郁小民女士), aged 66, is a non-executive Director of the Company. Ms. Yu graduated from Tongji University (同濟大學), the PRC 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. (上海聯創創業投資有限公司) since 1999 and was appointed as its representative on the Board. Ms. Yu joined the Company in April 2001.

DIRECTORS *(continued)*

Independent Non-executive Directors

Prof. Yang Zhenhua (楊振華教授), aged 71, is an independent non-executive Director of the Company. Prof. Yang graduated from the Shenyang Medical College (瀋陽醫學院) with a bachelor's degree in medicine in 1956. Prof. Yang was previously a visiting scholar of Nantong Medicine College (南通醫學院), a doctor of the Beijing Hospital (北京醫院) and 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 Ministry of Health of the PRC in 1997. Prof. 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 Ministry of Health of the PRC from 2001 to 2004. Prof. 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). He was appointed as an independent non-executive Director of the Company in April 2005 and resigned in January 2007.

Dr. Cheng Jing (程京博士), aged 43, is an independent non-executive Director of the Company. Dr. Cheng graduated from Shanghai Tiedao University (上海鐵道大學) (now known as Tongji University (同濟大學)) in 1983 with a bachelor's degree in electrical engineering. He received his doctoral degree in forensic biology from the Department of Chemistry and Applied Chemistry of University of Strathclyde, the United Kingdom in 1992. During 1992 and 1993, Dr. Cheng was a postdoctorate fellow of the Department of Chemistry and Applied Chemistry of University of Strathclyde. During 1993 and 1994, he was a postdoctorate fellow of the Department of Molecular and Cellular Biology of University of Aberdeen, the United Kingdom. During 1994 and 1996, he was a postdoctorate fellow and an assistant research professor of the Department of Pathology and Clinical Medicine in School of Medicine of University of Pennsylvania, the United States. Dr. Cheng is currently a professor of Medical Systems Biology Research Centre in the School of Medicine of Tsinghua University (清華大學), a supervisor of biophysics doctorate programme, a Cheung Kong Scholar, the director of National Engineering Research Center for Beijing Biochip Center (生物芯片北京國家工程研究中心) and the head of CapitalBio Corporation (博奧生物有限公司). Dr. Cheng was appointed by the Company as an independent non-executive Director in January 2007.

Dr. Hua Sheng (華生博士), aged 54, 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. He was a deputy research fellow at the University of Cambridge in 1992 and was a professor of 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 CAS (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) and was appointed as an independent non-executive Director of the Company in April 2005.

Mr. Chan Yiu Kwong (陳耀光先生), aged 42, is an independent non-executive Director of the Company. Mr. Chan graduated from the University of Hong Kong with a bachelor's degree in social sciences in 1988 and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. From 1988 to 1996, Mr. Chan worked as an auditor in Ernst & Young. From 1996 to 1999, he was the financial controller and the company secretary of Founder Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. Mr. Chan joined Hi Sun Technology (China) Limited (formerly known as Hi Sun Group Limited), a company listed on the Main Board of the Hong Kong Stock Exchange, since March 2001 and currently serves as executive director and company secretary. Mr. Chan Yiu Kwong has over 15 years of experience in auditing, business consulting and business management. Mr. Chan was appointed by the Company as an independent non-executive Director in April 2005.

SUPERVISORS

Dr. Yan Xiyun (閻錫蘊博士), aged 49, 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 at the Memorial Sloan-Kettering Cancer Center in New York, the United States in 1994 for 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 of 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 the IBP, a life member of the Chinese Society of Immunology (中國免疫學會), 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) 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 joined the Company in September 2003 and was appointed by the IBP as a supervisor representative. He resigned in January 2007.

Dr. He Rongqiao (赫榮喬博士), aged 52, is a supervisor of the Company. He was appointed by the IBP as a supervisor on January 2007. The biographical details of whom is set out in "Non-executive Directors" under the section headed "Directors, Supervisors and Senior Management".

Mr. Wang Xin (王昕先生), aged 37, is a supervisor of the Company. Mr. Wang graduated from 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 Renmin University of China (中國人民大學) with a master's 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 48, is a supervisor of the Company. Mr. Shao completed a trade finance course in University of International Business and Economics (對外經濟貿易大學) in 1990, and graduated from Capital University of Economics and Business (首都經濟貿易大學) with a master's 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.

SENIOR MANAGEMENT

Mr. Zhou Jie (周潔先生), aged 44, is the vice president of the Company who is responsible for the sales and trading division of the Company. Mr. Zhou completed a professional course in politics in Beijing Radio and Television University (北京廣播電視大學) in 1988 and graduated from 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 and is responsible for sales across the southwestern region of the PRC. He then worked in the marketing department of the Company as a department manager. Mr. Zhou joined the Company in April 2001.

Dr. Xu Cunmao (許存茂博士), aged 43, is a vice president of the Company who is 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 later obtained a Ph.D degree in science from 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 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.

Mr. Zhang Kun (張昆先生), aged 40, is the vice president of the Company who is responsible for the production, infrastructure and ERP of diagnostic reagents division. Mr. Zhang graduated from the Department of Physics of Beijing Normal University (北京師範大學) with a bachelor's degree in science and the School of Economics and Management of Tsinghua University (清華大學) with a master's degree in business administration. Mr. Zhang completed an on-the-job training in the School of Pharmaceutical Science of Peking University (北京大學), graduated from pharmaceutical executive management master course (藥業高級管理人員研究生班) and obtained a master degree. Mr. Zhang worked in the IBP. Mr. Zhang joined the Company in September 2003 as assistant to president of the Company, and was appointed as the vice president of the Company in January 2007.

Ms. Yao Ping (姚萍女士), aged 44, is a vice president of the Company who is 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 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 (甘肅省人事局) 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, Ms. Yao taught economics at Northwest Normal University (西北師範大學). During 1999 to 2002, Ms. Yao was seconded to the IBP and was responsible for corporate development. Ms. Yao joined the Company in April 2001.

Ms. Dong Zhongfang (董忠芳女士), aged 38, is the chief financial officer of the Group who is responsible for the financial affairs. Ms. Dong graduated from 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 experience in finance and accounting 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.

SENIOR MANAGEMENT *(continued)*

Mr. Tian Yiguo (田一國先生), aged 46, is the secretary of the Board who is 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 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 China Securities Regulatory Commission and the School of Economics & Management of Tsinghua University in 2002. Mr. Tian joined BEHT in 1999 and has been responsible for investment management. Mr. Tian joined the Company in April 2001.

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric (董渙樟先生), aged 36, is the company secretary of the Company. Mr. Tung graduated from York University, Toronto, Canada with a bachelor's degree of management studies 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 previously worked in Ernst & Young and possesses extensive experience. Mr. Tung is currently the general manager of the finance department of Beijing Enterprises Holdings Limited, 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 (北京西門子通訊網絡股份有限公司), the director of EverSource Scientific and Technology Development Co., Ltd. (恒有源科技發展有限公司) and an independent non-executive director of South China Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. Tung joined the Company in December 2005.

QUALIFIED ACCOUNTANT

Mr. Chan King Fai (陳景輝先生), aged 28, is the qualified accountant of the Company. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree of business administration in accounting and is a certified public accountant of 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. Prior to joining the Company in December 2005, Mr. Chan served as an accounting manager of Beijing Enterprises Holdings Limited. He resigned in January 2007.

Mr. Sit Hon Cheong (薛漢昌先生), aged 28, is the qualified accountant of the Company. Mr. Sit is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor's degree in 2001 from the University of Hong Kong. He has over 5 years of experience in accounting and auditing. Prior to joining the Company in January 2007, Mr. Sit worked in Beijing Enterprises Holdings Limited as an accounting manager.

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the shareholders of
Biosino Bio-Technology and Science Incorporation
(Incorporated in People's Republic of China with limited liability)

We have audited the financial statements of Biosino Bio-Technology and Science Incorporation set on pages 44 to 97, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
23 March 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	NOTES	**2006 RMB'000**	2005 RMB'000
REVENUE	4	**147,806**	135,432
Cost of sales		**(50,387)**	(40,862)
Gross profit		**97,419**	94,570
Other income	4	**7,161**	3,020
Selling and distribution expenses		**(39,490)**	(36,970)
Administrative expenses		**(23,905)**	(21,560)
Research and development costs		**(9,375)**	(7,531)
Other operating expenses		**(326)**	(607)
PROFIT FROM OPERATING ACTIVITIES	5	**31,484**	30,922
Finance costs	6	**(3,754)**	(475)
PROFIT BEFORE TAX		**27,730**	30,447
Tax	9	**(6,667)**	(3,921)
PROFIT FOR THE YEAR		**21,063**	26,526
Attributable to:			
Shareholders of the Company	10	**20,151**	24,352
Minority interests		**912**	2,174
		21,063	26,526
Dividends	12	**10,002**	10,002
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic (RMB)		**0.20**	0.35
– Diluted		**N/A**	N/A

31 December 2006

	NOTES	**2006 RMB'000**	2005 RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	**111,266**	107,327
Prepaid land premiums	15	**6,957**	7,059
Goodwill	16	**309**	–
Know-how	17	**2,238**	1,787
Trade and bills receivables	21	**1,530**	603
Investment deposit	18	**–**	1,000
Total non-current assets		**122,300**	117,776
Current assets:			
Prepaid land premiums	15	**146**	146
Inventories	20	**21,199**	21,706
Trade and bills receivables	21	**27,963**	22,954
Prepayments, deposits and other receivables	22	**10,581**	10,318
Pledged bank balance	23	**3**	317
Cash and cash equivalents	23	**154,580**	37,840
Total current assets		**214,472**	93,281
TOTAL ASSETS		**336,772**	211,057
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	24	**100,018**	70,018
Reserves	25(a)	**60,832**	32,640
Proposed final dividend	12	**10,002**	10,002
		170,852	112,660
Minority interests		**18,872**	10,283
TOTAL EQUITY		**189,724**	122,943
Non-current liabilities:			
Government grants	26	**12,820**	4,500
Bank borrowings	27	**80,000**	–
Total non-current liabilities		**92,820**	4,500
Current liabilities:			
Trade and bills payables	28	**2,355**	958
Other payables and accruals	29	**35,866**	41,060
Taxes payable	30	**6,007**	1,596
Bank borrowings	27	**10,000**	40,000
Total current liabilities		**54,228**	83,614
TOTAL LIABILITIES		**147,048**	88,114
TOTAL EQUITY AND LIABILITIES		**336,772**	211,057

Wu Lebin
Director

Wang Lin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

		Attributable to shareholders of the Company							
	Notes	**Issued share capital** RMB'000	**Capital reserves#** RMB'000	**Statutory reserves** RMB'000	**Retained Profits** RMB'000	**Proposed final dividend** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
At 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 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 and 1 January 2006		70,018	7,544[†]	17,286[†]	7,810[†]	10,002	112,660	10,283	122,943
Profit for the year and total income and expense for the year		–	–	–	20,151	–	20,151	912	21,063
Issue of shares upon listing	24(b)	30,000	18,043	–	–	–	48,043	–	48,043
Capital contributions from minority shareholders		–	–	–	–	–	–	9,000	9,000
Acquisition of an interest in a subsidiary	32	–	–	–	–	–	–	1,577	1,577
Transfer to capital reserves		–	4,722[µ]	–	(4,722)	–	–	–	–
Transfer to statutory reserves	11	–	–	2,893	(2,893)	–	–	–	–
Final 2005 dividend declared	12	–	–	–	–	(10,002)	(10,002)	–	(10,002)
Dividend declared to a minority shareholder		–	–	–	–	–	–	(2,900)	(2,900)
Proposed final 2006 dividend	12	–	–	–	(10,002)	10,002	–	–	–
At 31 December 2006		**100,018**	**30,309[†]**	**20,179[†]**	**10,344[†]**	**10,002**	**170,852**	**18,872**	**189,724**

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

† These reserve accounts comprise the consolidated reserves of RMB32,640,000 and RMB60,832,000 in the consolidated balance sheet as at 31 December 2005 and 2006, respectively.

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

Year ended 31 December 2006

	NOTES	**2006** **RMB'000**	2005 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**27,730**	30,447
Adjustments for:			
Interest income	4	**(1,064)**	(611)
Finance costs	6	**3,754**	475
Loss on disposal of items of property, plant and equipment, net	5	**238**	28
Amortisation of know-how	5	**383**	290
Depreciation	5	**8,411**	3,861
Write-back on impairment of property, plant and equipment	5	**(677)**	–
Amortisation of prepaid land premiums	5	**128**	112
Provision against slow-moving inventories and inventories loss, net	5	**36**	163
Impairment of trade receivables	5	**250**	577
		39,189	35,342
(Increase)/decrease in inventories		**1,310**	(5,001)
Increase in trade and bills receivables		**(5,647)**	(5,201)
(Increase)/decrease in prepayments, deposits and other receivables		**685**	(4,909)
Increase in trade and bills payables		**891**	282
Increase/(decrease) in other taxes payable		**1,229**	(211)
Decrease in other payables and accruals		**(5,462)**	(3,654)
Increase in government grants		**8,320**	4,500
Cash generated from operations		**40,515**	21,148
Mainland China income tax paid		**(3,605)**	(4,160)
Interest received		**1,064**	611
Net cash inflow from operating activities		**37,974**	17,599
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in an investment deposit		**–**	(1,000)
Purchases of items of property, plant and equipment	14	**(11,590)**	(31,807)
Proceeds from disposal of items of property, plant and equipment		**36**	395
Proceed from disposal of an available-for-sale financial asset		**–**	100
(Increase)/decrease in a pledged bank balance	23	**314**	(317)
Purchase of know-how	17	**(12)**	–
Acquisition of an interest in a subsidiary	32	**(369)**	–
Net cash outflow from investing activities		**(11,621)**	(32,629)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	24(b)	**62,400**	–
Share issue expenses	24(b)	**(14,357)**	–
Capital contributions from minority shareholders		**9,000**	–
New bank loans		**105,000**	55,000
Repayment of bank loans		**(55,000)**	(15,000)
Interest paid		**(3,754)**	(475)
Dividend paid		**(10,002)**	(33,490)
Dividend paid to a minority shareholder		**(2,900)**	–
Net cash inflow from financing activities		**90,387**	6,035
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**116,740**	(8,995)
Cash and cash equivalents at beginning of year		**37,840**	46,835
CASH AND CASH EQUIVALENTS AT END OF YEAR		**154,580**	37,840
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**151,330**	37,840
Non-pledged time deposit with original maturity of less than three months when acquired		**3,250**	–
		154,580	37,840

BALANCE SHEET

31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	**47,690**	43,997
Prepaid land premiums	15	**3,548**	3,603
Interests in subsidiaries	19	**54,979**	26,629
Trade receivables	21	**1,530**	603
Investment deposit	18	**–**	1,000
Total non-current assets		**107,747**	75,832
Current assets:			
Prepaid land premiums	15	**75**	74
Inventories	20	**12,059**	15,840
Trade receivables	21	**12,610**	10,183
Prepayment, deposits and other receivables	22	**6,330**	7,897
Pledged bank balance	23	**3**	317
Cash and cash equivalents	23	**122,142**	23,997
Total current assets		**153,219**	58,308
TOTAL ASSETS		**260,966**	134,140
EQUITY AND LIABILITIES			
Equity:			
Issued capital	24	**100,018**	70,018
Reserves	25(b)	**57,974**	21,193
TOTAL EQUITY		**157,992**	91,211
Non-current liabilities:			
Government grants	26	**5,500**	400
Bank borrowings	27	**80,000**	–
Total non-current liabilities		**85,500**	400
Current liabilities:			
Trade and bills payables	28	**590**	147
Other payables and accruals	29	**13,006**	11,579
Taxes payable	30	**3,878**	803
Bank borrowings	27	**–**	30,000
Total current liabilities		**17,474**	42,529
TOTAL LIABILITIES		**102,974**	42,929
TOTAL EQUITY AND LIABILITIES		**260,966**	134,140

Wu Lebin
Director

Wang Lin
Director

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.

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 the Company's domestic shares (the "Domestic Shares"), at a placing price of HK$2.0 per H share for listing on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 February 2006.

During the year, the Company and its subsidiaries (collectively the "Group") 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").

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries 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 subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the fair value of the identifiable 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 costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs are relevant to the Group and the Group has adopted them for the first time for this current year's financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

In accordance with the amendment 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 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions and the fair value option and HK(IFRIC)-Int 4 do not apply to the activities of the Group.

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

2.3 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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The 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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods from beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)- Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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 subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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'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 is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(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;

(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's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition for which the agreement date on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Excess over the cost of business combination

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 acquisition of subsidiaries, after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), 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 of an asset other than goodwill 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 such impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Leasehold improvements	Over the shorter of lease terms and 10%
Buildings	3.3%
Other structures	9.5%
Plant and machinery	8.6% to 19.4%
Furniture and fixtures	19.0% to 24.3%
Motor vehicles	19.0% to 19.4%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among that parts and each part is depreciated separately.

Residual values, useful lives and the 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 property, plant and equipment under construction or installation and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation testing and capitalised borrowing costs on related borrowed funds 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Know-how

Purchased know-how is stated at cost less any impairment losses and is amortised 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.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and include fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities at amortised cost (including bank borrowings)

Financial liabilities including trade and other payables and bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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, including time deposits, 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 goodwill or 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 taxable temporary differences associated with investments in subsidiaries, 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.

2.4 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 investments in subsidiaries, 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.

2.4 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:

(i) 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

(ii) 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 the financial instrument to the net carrying amount of the financial asset.

Retirement benefits 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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 segments. Particulars of the business segments are summarised as follows:

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

(ii) the pharmaceutical product segment manufactures, sells and distributes a pharmaceutical product.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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 2006 and 2005.

Year ended 31 December 2006

	In-vitro diagnostic reagent products RMB'000	Pharma-ceutical product RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	95,864	51,942	–	147,806
Other income	2,621	3,476	–	6,097
Total	98,485	55,418	–	153,903
Segment results	23,466	6,954		30,420
Interest income				1,064
Profit from operating activities				31,484
Finance costs				(3,754)
Profit before tax				27,730
Tax				(6,667)
Profit for the year				21,063
Attributable to:				
Shareholders of the Company				20,151
Minority interests				912
				21,063
Assets and liabilities:				
Segment assets	88,001	93,072	(590)	180,483
Unallocated assets				156,289
Total assets				336,772
Segment liabilities	22,436	31,860	(590)	53,706
Unallocated liabilities				93,342
Total liabilities				147,048
Other segment information:				
Depreciation	5,370	3,041	–	8,411
Amortisation of know-how	90	293	–	383
Capital expenditure	9,999	1,591	–	11,590
Write-back of impairment of property, plant and equipment	(677)	–	–	(677)

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2005

	In-vitro 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 income	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

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 reporting periods.

4. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value added tax and government surcharges, and after allowances for the goods returned and trade discounts.

An analysis of the Group's revenue and other income is as follows:

	2006 **RMB'000**	2005 RMB'000
Revenue		
Sale of in-vitro diagnostic reagent products	**95,864**	79,079
Sale of a pharmaceutical product	**51,942**	56,353
	147,806	135,432
Other income		
Bank interest income	**1,064**	611
Government grants*	**5,619**	2,232
Others	**478**	177
	7,161	3,020

* The government grants are unconditional, except for the fact that they must be utilised for research and development activities of the Group.

5. PROFIT FROM OPERATING ACTIVITIES

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

	NOTES	**2006 RMB'000**	2005 RMB'000
Cost of inventories sold		**50,004**	40,572
Depreciation	14	**8,411**	3,861
Loss on disposal of items of property, plant and equipment, net		**238**	28
Amortisation of know-how*	17	**383**	290
Minimum lease payment under operating leases in respect of land and buildings		**649**	1,508
Amortisation of prepaid land premiums	15	**128**	112
Auditors' remuneration		**600**	600
Employee benefits expense (including directors' and supervisors' remuneration (note 7)):			
Wages and salaries		**24,806**	20,928
Retirement benefits scheme contributions		**2,045**	1,806
		26,851	22,734
Write-back on impairment of property, plant and equipment	14	**(677)**	–
Impairment of trade receivables		**250**	577
Provision against slow-moving inventories and inventories loss, net		**36**	163
Foreign exchange differences		**470**	–

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

6. FINANCE COSTS

	Group	
	2006 RMB'000	2005 RMB'000
Interest on bank loans wholly repayable within five years	**3,754**	475

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	
	2006	2005
	RMB'000	RMB'000
Fees	**161**	118
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**2,045**	1,660
Retirement benefits scheme contributions	**11**	9
	2,056	1,669
	2,217	1,787

(a) Independent non-executive directors

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

	2006	2005
	RMB'000	RMB'000
Prof. Yang Zhenhua	**42**	–
Dr. Hua Sheng	**42**	–
Mr. Chan Yiu Kwong	**42**	–
	126	–

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

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

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

2006

	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	–	1,512	7	1,519
Mr. Zhu Yigui	–	417	–	417
Non-executive directors:				
Dr. Rao Zihe	14	–	–	14
Mr. Hua Jiaxin	4	–	–	4
Mr. Zhang Yong	4	–	–	4
Dr. He Rongqiao	7	–	–	7
Ms. Li Chang	11	–	–	11
Mr. Rong Yang	14	–	–	14
Mr. Wang Fu Gen	3	–	–	3
Ms. Yu Xiaomin	7	–	–	7
Supervisors:				
Dr. Yan Xiyun	6	–	–	6
Mr. Wang Xin	7	–	–	7
Mr. Shao Yimin	–	116	4	120
	77	2,045	11	2,133

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

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

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 Jiaxin	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

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors/supervisors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2005: three) non-director/supervisor, highest paid employees for the year are as follows:

	Group	
	2006 **RMB'000**	2005 RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,518**	1,497
Retirement benefits scheme contributions	**19**	15
	1,537	1,512

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

	Number of employees	
	2006	2005
Nil to RMB1,026,000 (equivalent to HK$1,000,000)	**3**	3

9. TAX

No provision for Hong Kong profits tax has been made as the as the Company and its subsidiaries have not generated any assessable profits in Hong Kong since their respective dates of incorporation. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country 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 subsidiaries, being registered as new and high technology enterprises in Beijing, are entitled to a concessionary income tax rates of 15% and 7.5% in their respective subsidiaries, which have been applied for both years.

	Group	
	2006 **RMB'000**	2005 RMB'000
Group:		
Current – Mainland, the PRC	**6,083**	4,178
Underprovision/(overprovision) in prior years	**584**	(257)
Total tax charge for the year	**6,667**	3,921

9. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Group			
	2006		2005	
	RMB'000	**%**	RMB'000	%
Profit before tax	**27,730**		30,447	
Tax at the applicable income tax rate of 15%	**4,160**	**15.0**	4,567	15.0
Adjustments in respect of current tax of previous year	**584**	**2.1**	(257)	(0.8)
Additional tax concession	**(817)**	**(3.0)**	(565)	(1.9)
Income not subject to tax	**(197)**	**(0.7)**	(358)	(1.2)
Expenses not deductible for tax	**2,882**	**10.4**	534	1.8
Tax loss not recognised	**55**	**0.2**	–	–
Tax charge at the Group's effective rate	**6,667**	**24.0**	3,921	12.9

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

The consolidated profit from ordinary activities attributable to shareholders of the Company for the year ended 31 December 2006 dealt with in the financial statements of the Company, was RMB28,740,000 (2005: RMB22,055,000) (note 25(b)).

11. DISTRIBUTION OF PROFIT

In accordance with the Company Law of the PRC and the articles of association of the Company and its subsidiaries registered in the PRC, the Company and its subsidiaries are required to appropriate 10% of their net profit after tax calculated under the accounting principles generally applicable to the PRC enterprises to the statutory surplus reserve until the fund aggregates 50% of the Company's registered capital. 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.

In prior year, 5% to 10% of the profit after tax was allocated to the statutory public welfare fund, which was used for the purpose of providing collective welfare benefits to the employees of the respective companies. The fund forms part of the shareholders' equity as only individual employee can use these facilities, while the title of such facilities is held by the Company. The transfer to this fund was made before any distribution of dividends to shareholders. Pursuant to the relevant PRC regulations, the appropriation of statutory public welfare fund was discontinued with effect from 1 January 2006 and allocated to the discretionary surplus reserve if approved by the shareholders.

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

In accordance with the articles of association of the Company, the profit after tax of the Company for the purpose of dividends payment is based on the lesser of (i) the profit determined in accordance with PRC GAAP; and (ii) the profit determined in accordance with HKFRSs.

12. DIVIDENDS

	2006 **RMB'000**	2005 RMB'000
Proposed final dividends – RMB0.10 (2005: RMB0.10) per share	**10,002**	10,002

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 ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to shareholders of the Company and the weighted average number of 100,017,528 (2005: 70,017,528) ordinary shares in issue during the year.

No diluted earnings per share amounts have been presented as no diluting events existed during the year (2005: Nil).

14. PROPERTY, PLANT AND EQUIPMENT

Group	Notes	Buildings and other structures 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 2006								
At 31 December 2005 and at 1 January 2006:								
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
Cost, net of accumulated depreciation and impairment at 1 January 2006		31,613	307	10,879	1,773	2,461	60,294	107,327
Acquisition of a subsidiary	32	–	–	190	193	–	–	383
Additions		–	1,459	834	1,007	553	7,737	11,590
Transfer from CIP		40,574	–	23,982	1,190	–	(65,746)	–
Transfer to prepaid land premiums	15	(26)	–	–	–	–	–	(26)
Disposals		–	–	(249)	(25)	–	–	(274)
Reclassification		(11,588)	–	11,588	–	–	–	–
Depreciation provided during the year		(1,663)	(514)	(4,591)	(914)	(729)	–	(8,411)
Write-back of impairment		–	–	491	186	–	–	677
Cost, net of accumulated depreciation at 31 December 2006		58,910	1,252	43,124	3,410	2,285	2,285	111,266
At 31 December 2006:								
Cost		61,018	4,237	53,321	5,823	4,852	2,285	131,536
Accumulated depreciation		(2,108)	(2,985)	(10,197)	(2,413)	(2,567)	–	(20,270)
Net carrying amount		58,910	1,252	43,124	3,410	2,285	2,285	111,266

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

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 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 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:

(a) The Group's buildings were pledged to secure certain bank borrowings granted to the Group as at 31 December 2006 and 2005 (note 27).

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

Company

	Note	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 2006								
At 31 December 2005 and at 1 January 2006:								
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
Cost, net of accumulated depreciation and impairment at 1 January 2006		31,613	307	9,372	1,261	1,444	–	43,997
Additions		–	–	640	414	552	6,458	8,064
Transfer from CIP		–	–	3,264	909	–	(4,173)	–
Transfer to prepaid land premiums	15	(26)	–	–	–	–	–	(26)
Disposals		–	–	(127)	(19)	–	–	(146)
Reclassification		(11,588)	–	11,588	–	–	–	–
Depreciation provided during the year		(521)	(97)	(3,183)	(653)	(422)	–	(4,876)
Write-back of impairment		–	–	491	186	–	–	677
Cost, net of accumulated depreciation at 31 December 2006		19,478	210	22,045	2,098	1,574	2,285	47,690
At 31 December 2006:								
Cost		20,444	307	29,877	3,750	3,246	2,285	59,909
Accumulated depreciation		(966)	(97)	(7,832)	(1,652)	(1,672)	–	(12,219)
Net carrying amount		19,478	210	22,045	2,098	1,574	2,285	47,690

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

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 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 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:

(a) The Company's buildings were pledged to secure certain bank borrowings granted to the Company as at 31 December 2006 and 2005 (note 27).

15. PREPAID LAND PREMIUMS

		Group		Company	
	Note	**2006** **RMB'000**	2005 RMB'000	**2006** **RMB'000**	2005 RMB'000
Carrying amount at 1 January		**7,205**	7,317	**3,677**	3,717
Transfer from buildings	14	**26**	–	**26**	–
Amortisation provided during the year		**(128)**	(112)	**(80)**	(40)
Carrying amount at 31 December		**7,103**	7,205	**3,623**	3,677
Current portion included as current assets		**(146)**	(146)	**(75)**	(74)
Non-current portion		**6,957**	7,059	**3,548**	3,603

(a) 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.

(b) The Group's and the Company's interests in the land use rights were pledged to secure bank borrowings granted to the Group and the Company at 31 December 2006 and 2005 (note 27).

16. GOODWILL

	Group RMB'000
At 1 January 2006	–
Acquisition of a subsidiary (note 32)	309
Cost and carrying amount at 31 December 2006	309

17. KNOW-HOW

	Group RMB'000
31 December 2006	
Cost, net of accumulated amortisation at 1 January 2006	1,787
Acquisition of a subsidiary (note 32)	822
Additions	12
Amortisation provided during the year	(383)
At 31 December 2006	2,238
At 31 December 2006:	
Cost	3,733
Accumulated amortisation	(1,495)
Net carrying amount	2,238
31 December 2005	
Cost, net of accumulated amortisation at 1 January 2005	2,077
Amortisation provided during the year	(290)
At 31 December 2005	1,787
At 31 December 2005:	
Cost	2,899
Accumulated amortisation	(1,112)
Net carrying amount	1,787

Know-how is related to the production process of the Group's pharmaceutical product and in-vitro diagnostic reagent products. The know-how of processing the pharmaceutical product was purchased by the Group from a related company at a cost of RMB2,898,600 in January 2002. During the year, the Company acquired the know-how of processing in-vitro diagnostic reagent products through the acquisition of a subsidiary at a net carrying amount of RMB822,000 at the date of acquisition.

18. INVESTMENT DEPOSIT

Pursuant to the sales contract and the supplementary agreement dated 20 September 2005 and 2 November 2005, respectively, the Company agreed to purchase a 51% equity interest in Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd. from Guangzhou Kingmed Medicine Technology Co., Ltd. for a consideration of RMB1,950,000. A deposit of RMB1,000,000 had been paid by the Company in 2005. The above acquisition was completed on 29 March 2006.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	RMB'000
Unlisted equity investment in Mainland China, at cost	**54,433**	19,683
Dividend receivable from a subsidiary	**–**	6,400
Due from a subsidiary	**583**	583
Due to a subsidiary	**(37)**	(37)
	54,979	26,629

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.

19. INTERESTS IN SUBSIDIARIES *(continued)*

Particular of the subsidiaries, which are 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
北京百奧藥業有限責任公司 (Beijing Baiao Pharmaceuticals Co., Ltd.) ("Baiao Pharmaceuticals")	PRC/ Mainland China	RMB55 million	80	Manufacture, sale and distribution of a pharmaceutical product
北京中生金域診斷技術有限公司 (Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd.) ("Zhongsheng Jinyu")*	PRC/ Mainland China	RMB2.3 million	51	Manufacture, sale and distribution of in-vitro diagnostic reagent product
北京百川飛虹生物科技有限公司 (BioTrand Incorporation) ("BioTrand")*	PRC/ Mainland China	RMB10 million	90	Conduct research in biotechnology project
北京中生可利檢驗醫學技術有限責任公司 (Biosino Lab Tech. Inc.) ("BioLab")*	PRC/ Mainland China	RMB6.8 million	55.88	Conduct medical science research

* Acquired/incorporated during the year

20. INVENTORIES

	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
Raw materials	**7,130**	8,561	**4,596**	6,792
Work in progress	**1,238**	1,069	**115**	418
Semi-finished goods	**3,614**	1,714	**756**	581
Finished goods	**8,626**	9,696	**6,592**	8,049
Finished goods on consignment	**591**	666	**–**	–
	21,199	21,706	**12,059**	15,840

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

21. TRADE AND BILLS RECEIVABLES

The credit period of the Group to its customers is generally for a period ranging from 60 days to 90 days. The Group closely monitors overdue balances, and impairment 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 trade receivables of the Company as at the balance sheet date based on invoice date, are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**22,778**	19,422	**10,829**	9,098
4 to 6 months	**2,361**	4,001	**95**	2,065
7 to 12 months	**1,749**	825	**654**	173
1 to 2 years	**3,084**	547	**2,239**	29
Over 2 years	**1,674**	698	**926**	348
	31,646	25,493	**14,743**	11,713
Less: Provision for doubtful receivables	**(2,153)**	(1,936)	**(603)**	(927)
	29,493	23,557	**14,140**	10,786
Less: Portion classified as current assets	**(27,963)**	(22,954)	**(12,610)**	(10,183)
Non-current portion	**1,530**	603	**1,530**	603

Included in the trade and bills receivables of the Group and the trade receivables of the Company as at 31 December 2006 and 2005 was an aggregate amount of RMB1,530,000 (2005: RMB603,000) due from certain established customers of the Company for several instalment sales contracts entered into with payment terms ranging from two to four years. The balance in 2006 is unsecured and interest-free. The balance in 2005 was interest-free and guaranteed by the legal representative of the respective companies.

The carrying amounts of the trade and bills receivables approximate to their fair values.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2006	2005	**2006**	2005
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Advance to suppliers		**2,630**	1,175	**1,315**	887
Prepayments		**201**	3,298	**129**	2,864
Deposits and other debtors		**7,341**	5,615	**4,886**	4,146
Due from a shareholder	31	**409**	230	**–**	–
		10,581	10,318	**6,330**	7,897

Included in the Group's and the Company's other debtors as at 31 December 2006 were cash advances of RMB2,000,000 in aggregate made to an established customer of the Company pursuant to the sales contract and the supplementary agreements dated 9 September 2005 and 1 April 2006, respectively entered into between the customer and the Company in connection with the of purchase certain bio-chemical instruments for the development of in-vitro diagnostic reagent products by the customer. The cash advances are personally guaranteed by the legal representative of the company, which is interest-free and repayable in April 2007.

Also, included in the Group's and the Company's other debtors as at 31 December 2006 was a government subsidy receivable of RMB1,760,000 in aggregate in relation to a subsidised bank loan of RMB80,000,000 made in the current year (note 27). The amount was subsequently received in February 2007.

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCE

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**151,333**	38,157	**118,895**	24,314
Time deposit	**3,250**	–	**3,250**	–
Less: Bank balance pledged for letter of credit facilities	**(3)**	(317)	**(3)**	(317)
Cash and cash equivalents	**154,580**	37,840	**122,142**	23,997

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposit is made for a period within three months and earns interest at the short term time deposit rate. The carrying amounts of the cash and cash equivalents and the pledged deposit approximate to their fair values.

24. SHARE CAPITAL

	2006 RMB'000	2005 RMB'000
Registered, issued and fully paid:		
67,017,528 Domestic Shares (2005: 70,017,528) of RMB1 each	**67,018**	70,018
33,000,000 H shares (2005: Nil) of RMB1 each	**33,000**	–
	100,018	70,018

A summary of the movements in the Company's registered capital during the year is as follows:

	Notes	Domestic Shares of RMB1 each RMB'000	H shares of RMB1 each RMB'000	Total RMB'000
At beginning of year		70,018	–	70,018
Domestic Shares converted	(a)	(3,000)	3,000	–
Share placement and public offer	(b)	–	30,000	30,000
		67,018	33,000	100,018

Notes:

(a) On 17 February 2006, the Company issued 33,000,000 H shares, consisting of 30,000,000 new H shares and 3,000,000 H shares converted from the Domestic Shares, with a par value of RMB1 each at HK$2.00 (equivalent to RMB2.08) per share. The gross proceeds from the sale of the Domestic Shares amounted to RMB6,240,000 and, after deducting the related share issue expenses of RMB1,350,121, the remaining balance of RMB4,889,879 was payable to the Social Security Fund.

(b) As referred to note (a) above, the Company issued 33,000,000 H shares in aggregate and raised gross proceeds of RMB68,640,000. After deducting proceeds of RMB6,240,000 from the sale of 3,000,000 H shares converted from the Domestic Shares and share issue expenses of RMB14,356,238, the Company raised net proceeds of RMB48,043,762, of which the paid-up share capital amounted to RMB30,000,000 and the capital reserves amounted to RMB18,043,762.

25. 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 46 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 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 and 1 January 2006		70	13,443	7,680	21,193
Profit for the year		–	–	28,740	28,740
Issue of new H shares upon listing	24(b)	18,043	–	–	18,043
Proposed final 2005 dividend		–	–	(10,002)	(10,002)
Transfer to statutory reserves	11	–	2,632	(2,632)	–
At 31 December 2006		18,113	16,075	23,786	57,974

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

26. GOVERNMENT GRANTS

The balance represented government grants received from the following government authorities for the respective projects:

		Group		Company	
		2006	2005	**2006**	2005
Government authority	**Project name**	**RMB'000**	RMB'000	**RMB'000**	RMB'000
中華人民共和國財政部	863診斷試關鍵原料50%	**2,500**	–	**2,500**	–
中華人民共和國財政部	863生化診斷試劑50%	**3,000**	–	**3,000**	–
北京市海淀區財政局	蛋白質多膠藥物化支撐平台項目	**5,000**	3,500	**–**	–
北京市工業促進局	蛋白質藥物產業化項目	**2,000**	–	**–**	–
國家發展和改革委員會	新形微粒制劑研究開發項目	**–**	600	**–**	–
中關村科技園管理委員會	尿半乳糖測試定試劑盒	**320**	–	**–**	–
北京科學技術委員會	時間分辨螢光免疫技術及診斷	**–**	400	**–**	400
		12,820	4,500	**5,500**	400

The directors are in the opinion that the above government grants were granted without any conditions levied and were non-repayable. The balances were classified as non-current liabilities, because the respective projects are not expected to be completed within one year from 31 December 2006.

27. BANK BORROWINGS

Group	Notes	**2006** Effective interest rate (%)	**2006** Maturity	**2006** RMB'000	2005 Effective interest rate (%)	2005 Maturity	2005 RMB'000
Current							
Bank loans – secured	(a)	**5.58**	**2007**	**10,000**	5.58	2006	40,000
Non-current							
Bank loans – secured	(b)	**6.00**	**2009**	**80,000**	–	–	–
				90,000			40,000

27. BANK BORROWINGS *(continued)*

Company	Notes	**2006** Effective interest rate (%)	**2006** Maturity	**2006** RMB'000	2005 Effective interest rate (%)	2005 Maturity	2005 RMB'000
Current							
Bank loans – secured	(b)	**–**	**–**	**–**	5.58	2006	30,000
Non-current							
Bank loans – secured	(b)	**6.00**	**2009**	**80,000**	–	–	–
				80,000			30,000

	Group **2006** RMB'000	Group 2005 RMB'000	Company **2006** RMB'000	Company 2005 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	**10,000**	40,000	**–**	30,000
In the second year	**–**	–	**–**	–
In the third to fifth years, inclusive	**80,000**	–	**80,000**	–
	90,000	40,000	**80,000**	30,000

Notes:

The Group's bank loans are secured by:

(a) a corporate guarantee of RMB20,000,000 provided by an independent third party (the "Guarantor"). 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 Changping site, with an aggregate carrying value of approximately RMB32,553,000 (2005: RMB30,500,000) at the balance sheet date, were pledged to the Guarantor (note 14).

(b) the pledge of the Company's land use right in Mainland China and the building erected thereon, with an aggregate carrying value of approximately RMB23,101,000 (2005: RMB35,500,000) at the balance sheet date (note 14).

All the bank borrowings are denominated in RMB and bear interest at fixed interest rates. The carrying amounts of these loans approximate to their fair values.

28. TRADE AND BILLS PAYABLES

An aged analysis of the 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		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Outstanding balances aged:				
Within 3 months	**1,744**	764	**573**	131
4 to 6 months	**322**	79	**–**	–
7 to 12 months	**73**	41	**2**	–
1 to 2 years	**114**	34	**–**	16
Over 2 years	**102**	40	**15**	–
	2,355	958	**590**	147

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

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Accruals		**7,631**	8,266	**2,673**	4,159
Other liabilities	(a) and (b)	**27,704**	28,051	**9,802**	6,878
Due to a shareholder	31	**531**	4,743	**531**	542
		35,866	41,060	**13,006**	11,579

Notes:

(a) Included in the Group's other liabilities as at 31 December 2006 and 2005 are certain government grants 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 for the construction of a production base of Baiao Pharmaceuticals 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 to the Commission. 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 the 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 the capital of Baiao Pharmaceuticals is remote. The construction project was completed in 2006 and the amount remained unpaid as at the respective balance sheet dates. The balances are interest-free, unsecured and have no fixed terms of repayment.

29. OTHER PAYABLES AND ACCRUALS *(continued)*

Notes: *(continued)*

(b) Included in the Group's other liabilities as at 31 December 2006 and 2005 are costs of RMB9,619,000 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. The Group's other liabilities as at 31 December 2006 also included the net proceeds of RMB4,889,879 repayable to the Social Security Fund arising from the sale of the Domestic Shares.

Included in the Company's other liabilities as at 31 December 2006 is net proceeds of RMB4,889,879 repayable to the Social Security Fund and arising from the sale of the Domestic Shares. Included in the Company's other liabilities as at 31 December 2005 was cost of RMB3,654,000, incurred for the construction of office and factory premises of the Company at Changping District, Beijing, the PRC. The amount was fully settled during the year.

30. TAXES PAYABLE

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC corporate income tax payable	**3,308**	247	**2,252**	264
Value-added tax payable	**2,380**	1,069	**1,433**	381
Others	**319**	280	**193**	158
	6,007	1,596	**3,878**	803

31. 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 2005 as set out in note 22 represented a cash advance paid by Baiao Pharmaceuticals to its shareholder for the purchase of certain equipments for the development of a research project jointly carried out by Baiao Pharmaceuticals and the shareholder that remained unpaid by the shareholder as at that date. The amount was fully settled during the year ended 31 December 2006.

The amount due from a shareholder as at 31 December 2006 as set out in note 22 represented an advance payment to the shareholder, the Institute of Biophysics of the Chinese Academy of Sciences (the "IBP"), for the purchase of equipment and leasehold improvements for the development of a research project carried out by the Group's subsidiary, BioTrand. The amount remained unsettled as at the date of approval of these financial statements.

Included in the amount due to a shareholder as at 31 December 2006 as set out in note 29 represented accrued annual fees for the rights to use the technical know-how from the IBP. The amount remained unpaid as at the date of approval of these financial statements.

32. BUSINESS COMBINATION

On 29 March 2006, the Group acquired a 51% equity interest in Zhongsheng Jinyu from a third party. Zhongsheng Jinyu is engaged in the manufacture, sale and distribution of in-vitro diagnostic reagent products. The purchase consideration for the acquisition was in the form of cash, with RMB1,000,000 paid during the year ended 31 December 2005 as an investment deposit and the remaining RMB950,000 paid on 3 March 2006.

The fair values of the identifiable assets and liabilities of Zhongsheng Jinyu at the date of acquisition, which have no significant differences from their respective carrying amounts, are as follows:

	Notes	**2006 RMB'000**
Net assets acquired:		
Property, plant and equipment	14	**383**
Know-how	17	**822**
Inventories		**839**
Trade receivables		**539**
Prepayments, deposits and other receivables		**949**
Cash and bank balances		**581**
Trade payables		**(506)**
Tax payable		**(121)**
Other payables and accruals		**(268)**
Minority interests		**(1,577)**
Net assets		**1,641**
Goodwill arising on acquisition	16	**309**
		1,950
Satisfied by cash		**1,950**

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(1,950)
Cash and bank balances acquired	581
Investment deposit paid during the year ended 31 December 2005 (note 18)	1,000
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(369)

Since its acquisition, Zhongsheng Jinyu contributed RMB6,835,000 to the Group's revenue and RMB313,000 to the consolidated profit for the year ended 31 December 2006.

Had the above business combination taken place on 1 January 2006, the profit for the year of the Group would have been RMB21,264,000 and the revenue of the Group would have been RMB153,561,000.

33. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at 31 December 2006 (2005: Nil).

34. 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.

35. 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 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Within one year	**309**	98
In the second to fifth years, inclusive	**199**	8
	508	106

The Company did not have any operating lease commitments as at 31 December 2006 (2005: Nil).

36. COMMITMENTS

(i) In addition to the operating lease commitments detailed in note 35 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised, but not contracted for:				
Land and buildings	**–**	573	**–**	573
Plant and machinery	**–**	3,921	**–**	3,921
	–	4,494	**–**	4,494
Contracted, but not provided for:				
Land and buildings	**–**	–	**–**	–
Plant and machinery	**–**	–	**–**	–
	–	–	**–**	–
	–	4,494	**–**	4,494

(ii) Pursuant to a research and development cooperation agreement (the "Research and Development Cooperation Agreement") dated 9 August 2004 entered into between the Group and the IBP, a shareholder of the Company, both parties will jointly engage in a pre-clinical research project for the development of a chemical drug, namely, Alprostadil for Injection. Upon the completion of such pre-clinical research, 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 IBP an amount equivalent to 50% of the assessed market value of the clinical research rights. According to the Research and Development Cooperation 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 IBP 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 IBP under the aforesaid agreement.

37. 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 2006 RMB'000	Group 2005 RMB'000
CONTINUING TRANSACTIONS:			
Rental paid by Baiao Pharmaceuticals in respect of operating lease arrangements of office properties, factory premises and warehouses	(i)	**266**	932
Water and electricity fees paid by Baiao Pharmaceuticals	(ii)	**140**	630
Technical service fee paid	(iii)	**500**	500
Sale of medical equipment to the IBP	(iv)	**385**	–
DISCONTINUED TRANSACTIONS:			
Rental paid by the Company in respect of operating lease arrangements of office properties, factory premises and warehouses	(i)	**–**	367
Water and electricity fees paid by the Company	(ii)	**–**	74

Notes:

(i) The Group's premises at Haidian District of Beijing, the PRC (the "Haidian Premises") were leased from the IBP, a shareholder of the Company. The rentals were paid based on a mutually-agreed amount each year. In the opinion of the directors, the rentals were determined by reference to the then prevailing open market rentals.

Since April 2006, the Group has moved into its new office building and production facility at Changping. Thus, the lease contract with the IBP has been terminated.

(ii) The water and electricity fees incurred by the Group at the Haidian Premises were firstly paid by the IBP 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.

Since April 2006, the Group has moved out of the Haidian Premises and the above arrangement has been terminated.

37. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: *(continued)*

(iii) On 9 December 2004, the IBP 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 IBP (the "Reagent Technologies"). Pursuant to the Licensing Agreement, the Company is required to pay a fee of RMB500,000 per annum to the IBP for 20 years, commencing on the effective date of the Licensing Agreement. In addition, the IBP confirmed that it would not pursue any legal or economic obligations against the Company which used 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. As at 31 December 2006, the remaining balance due to the IBP was RMB531,000.

(iv) On 8 December 2006, the Company entered into a sales agreement with IBP under which the Company sold certain medical equipment to the IBP. The price of this equipment was set on a mutually-agreed amount. As at 31 December 2006, the Company has already delivered the equipment and the balance has been settled.

(b) Compensation of key management personnel of the Group

	2006 **RMB'000**	2005 RMB'000
Short term employee benefits	**5,444**	4,819
Post-employment benefits	**74**	52
Total compensation paid to key management personnel	**5,518**	4,871

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial assets of the Group mainly include cash and bank balances and trade receivables. Financial liabilities of the Group mainly include trade and other payables and bank loans.

The carrying amounts of the Group's financial instruments approximated to their fair values 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.

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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Interest rate risk

At 31 December 2006, 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 businesses 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 currencies are not expected to have significant impact on the results of the Group.

(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.

39. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2007.

FINANCIAL SUMMARY

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

RESULTS

	2006 **RMB'000**	2005 RMB'000	2004 RMB'000	2003 RMB'000
Revenue	**147,806**	135,432	121,989	101,068
Profit before tax	**27,730**	30,447	29,961	27,433
Tax	**(6,667)**	(3,921)	(4,053)	(3,854)
Profit for the year	**21,063**	26,526	25,908	23,579
ATTRIBUTABLE TO:				
Shareholders of the Company	**20,151**	24,352	23,834	21,342
Minority interests	**912**	2,174	2,074	2,237
	21,063	26,526	25,908	23,579
ASSETS, LIABILITIES AND MINORITY INTERESTS				
Total assets	**336,772**	211,057	179,618	134,966
Total liabilities	**(147,048)**	(88,114)	(63,601)	(29,367)
NET ASSETS	**189,724**	122,943	116,017	105,599
REPRESENTED BY:				
Equity attributable to				
Shareholders of the company	**170,852**	112,660	106,308	97,964
Minority interests	**18,872**	10,283	9,709	7,635
TOTAL EQUITY	**189,724**	122,943	116,017	105,599