



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



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

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Corporate Information

PRC OFFICE

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WEBSITE

<http://www.zhongsheng.com.cn>
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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
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 in China; while the second largest shareholder is Beijing Enterprises Holdings High-Tech Development Co., Ltd. (“BEHT”), a subsidiary of Beijing Enterprises Holdings Limited.

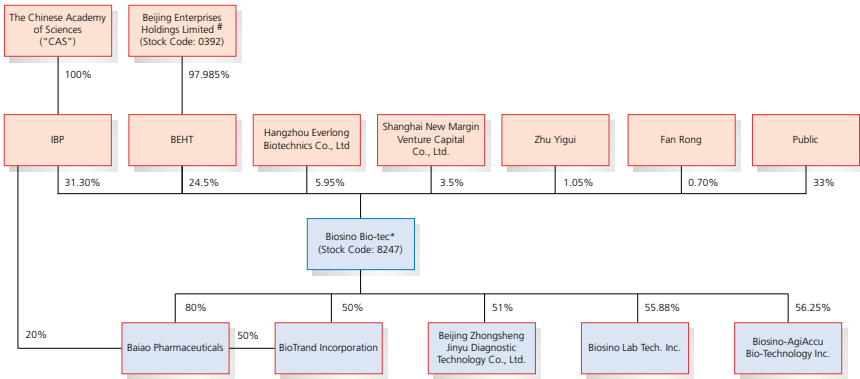
The “Biosino” and “Baiao” brands of the Group are well-known in the industry. “Biosino” was awarded as “Renowned Beijing Brand” (北京名牌產品) in 2002 and was awarded “No. 1 Brand with High Quality and Reputation in the In-vitro Diagnostic Reagent Market of the PRC” (中國診斷試劑市場用戶滿意質量信譽第一品牌) in 2005, and it is 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 distributed at domestic hospitals and medical institutions.

The Group ranked No. 1 in the conventional medical chemistry 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 and doctors, by 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, with some of them had research experience in the IBP, these solid scientific research background and ambition provide firm research foundations of Biosino Bio-Tec. and advantageous to the long-term business development of the Group.

Group Structure

As at 30 June 2007



Management Discussion and Analysis

BUSINESS REVIEW FOR THE FIRST HALF OF 2007

For the first half of the year, an important project of “Bio-medical Key Reagent” (《生物醫學關鍵試劑》), the first project supporting the development of in-vitro diagnostic reagent of the 863 Program under the Eleventh Five-Year Plan of the State, has come into its full implementation. The Group, as the leader of in-vitro diagnostic reagent production in China, undertakes and leads the implementation of such project. Moreover, the State Food and Drug Administration of the PRC (“SFDA”) officially issued and implemented the “Management Method of In Vitro Diagnostic Reagents Registration (Interim)” (《體外診斷試劑註冊管理辦法(試行)》) during the first half of the year, and some relevant ancillary regulations including “Detailed Rules for the Implementation of the Production of In Vitro Diagnostic Reagents (Interim)” (《體外診斷試劑生產實施細則(試行)》), “Guiding Principles for the Preparation of Manuals for In Vitro Diagnostic Reagents” (《體外診斷試劑說明書編寫指導原則》) were issued afterward. Such regulation is the State’s first regulation specific to in-vitro diagnostic reagents, the issuance and implementation of which not only provides the Company with new concepts, new policies and new demands, but also presents new opportunities and targets for the Company. As a leading enterprise in the in-vitro diagnostic reagent industry, the Group has already prepared itself to meet the new standards. The implementation of these new regulations will enhance the industry’s orderly development to reach high standards and requirements, and will also facilitate the growth of the Group. Since this year, the State has put additional resources in public hospital services and insurance for the low-income group. This has already driven the market growth of the in-vitro diagnostic industry and created higher demands for the Group’s products.

For the first half of the year, the Group took full advantage of the opportunities brought by the development of China and devoted more resources to product research and development as well as infrastructure construction. We also adopted an active approach in expanding the product mix and target market, thereby facilitating the trend of healthy and rapid growth of our businesses.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW FOR THE FIRST HALF OF 2007

The revenue for the six months ended 30 June 2007 was approximately RMB83.65 million, representing a remarkable increase of 22.7% as compared with approximately RMB68.17 million for the corresponding period last year. The revenue of approximately RMB54.03 million of in-vitro diagnostic reagent products accounted for 64.6% of the Group's total revenues, representing a 23.8% increase as compared with RMB43.65 million over the corresponding period last year. For pharmaceutical products, the revenue of RMB29.62 million of Lumbrokinase capsules accounted for 35.4% of the Group's total revenue, representing an increase of 20.8% as compared with RMB24.52 million over the corresponding period last year.

For the six months ended 30 June 2007, profit from operating activities amounted to RMB14.09 million, representing an increase of 18.3% as compared with the corresponding period last year. With an aim to promote business expansion and further consolidate its leading position in the market, the Group continued its effort in the research and development of new diagnostic reagent products and pharmaceutical products, and thereby recorded higher research and development expenses. On the other hand, the surge in operating expenses as compared with the corresponding period last year was mainly attributable to the consolidation of operational expenses of four subsidiaries which were established or acquired by the Group since the end of the first quarter last year, offsetting part of the increase in profit generated from the out-performed growth in sales.

Profit attributable to shareholders for the six months ended 30 June 2007 was RMB7.18 million, representing a decrease of approximately 17.3% as compared with the corresponding period last year. Such decrease was mainly attributable to the increase in interest expenses as a result of the increase in the Group's bank borrowings for research and development and business expansion, together with the higher income tax expense due to the adjustment in the fixed deductible amount on salary expenses by State Administration of Taxation.

Management Discussion and Analysis (Continued)

PROSPECT AND OUTLOOK

Looking forward, the Group is confident about the prospect of development of the in-vitro diagnostic reagent industry and of the Group. By actively carrying out the State's 863 Program and establishing a technological innovation system for China's medical test and in-vitro diagnostic reagent industry, we will give full support to the State's policy of "establishing a technological innovation system with enterprises as the subject, market trend as the guide and the construction of a system embracing manufactures, studies and researches". On the other hand, we will also make greater efforts in the research and development of new products, as well as enhance our self-innovation capability by setting up a reference system and an industry standard system, with an aim to increase our share in the China market and export our products.

Besides, in view of the long-term growth, the Group will step up its efforts in expanding product mix and enhancing market network. By maintaining a team with talented staff and establishing an industrial system with high productivity and competitiveness, the Group can sustain its development and become a pioneer in China's protein industry with international influence, which in turn maximizing our shareholders' interest.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the actual business progress for the six months ended 30 June 2007 with the Group's business objectives as set out in the prospectus of the Company.

Management Discussion and Analysis (Continued)

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONTINUED)

Business Objectives

Actual Business Progress

Expanding research and development effort in product development

- | | |
|--|---|
| <ul style="list-style-type: none">- Continue the clinical experiment and development of Alprostadil injection and Lumbrokinase injection
- Research development, and enhancement of Homocysteine diagnostic reagent, for the diagnosis of cardiac and cerebrovascular related diseases and Lipase diagnostic reagents
- Research planning and research for tumour prognostic solutions and cardiac muscular triple card prognostic solutions | <ul style="list-style-type: none">- Pre-clinical research of Alprostadil injection has been completed and application for the registration has been filed to SFDA, pending for the technical evaluation at the Drug Evaluation Center of SFDA
- Clinical experiment and development of Lumbrokinase injection have not yet commenced
- Research and development of Lipase diagnostic reagents is in progress
- The Group is actively seeking partners to collaborate on the research and development of Homocysteine diagnostic reagent
- Certain products, such as Cardiac Troponin, have completed the research stage and are undergoing small-scale production and clinical trials |
|--|---|

Management Discussion and Analysis (Continued)

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONTINUED)

Business Objectives

Actual Business Progress

Expanding research and development effort in product development (Continued)

- | | |
|--|---|
| <ul style="list-style-type: none">- Complete research and development of Pancreatic Kininogenase raw material and Pancreatic Kininogenase capsule and Aprotinin injection

- Continue the establishment of anti-body substances research laboratory | <ul style="list-style-type: none">- Registration certificate for Pancreatic Kininogenase raw material has been obtained from SFDA

- Clinical experiment of Pancreatic Kininogenase enteric-coated capsules has been completed. The Group is applying to SFDA for the production of such capsules

- Pre-clinical research on Aprotinin injection is in progress

- Infrastructure for the laboratory has been completed and equipment are purchased |
|--|---|

Enhancing the existing PRC sales network and exploring business opportunities in other Asian countries

- | | |
|--|--|
| <ul style="list-style-type: none">- Prepare for hosting of the 20th Anniversary of Biosino promotional activities

- Further enhancement of marketing plans | <ul style="list-style-type: none">- Preparation work for such activities is underway

- New customers have been secured in several countries and regions such as Hong Kong and India

- Negotiation with a Singapore company, aiming at studying the feasibility to develop reagent business in Malaysia, is in progress |
|--|--|

Management Discussion and Analysis (Continued)

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONTINUED)

Business Objectives

Actual Business Progress

Introducing new products periodically

- | | |
|---|---|
| <ul style="list-style-type: none">- Obtain SFDA's registration certificate and commence production and sale of fecal occult blood rapid testing card- Conduct academic promotional activities for Octreotide Acetate injection and Pentoxifylline capsules, and commercial launch of Pentoxifylline enteric-coated capsules- Launch of C-Reaction Protein rapid testing cards- Launch Homocysteine, Lipase diagnostic reagents and Angiotensin converting enzyme kits- Launch Beta 2-microglobulin diagnostic reagent | <ul style="list-style-type: none">- Registration certificate has been obtained from SFDA and production and sale have commenced- Academic promotional activities for Octreotide Acetate injection have not yet been commenced- As the clinical application of Pentoxifylline capsules slumps, the related project has been shelved- Due to changes in market condition, products such as bio-chemical reagents for bio-chemical analyzer, high sensitive CRP, have more favourable market response as compared with C-Reaction Protein rapid testing cards, the Group decided to devote research and development resources to such products- Each project is undergoing its research and assessment stage- Registration certificate for Beta 2-microglobulin diagnostic reagent has been obtained from SFDA and such product has been launched to the market |
|---|---|

Management Discussion and Analysis (Continued)

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONTINUED)

Business Objectives

Actual Business Progress

Introducing new products periodically (Continued)

- | | |
|---|---|
| <ul style="list-style-type: none">- Obtain SFDA new drug certificate for Octreotide Acetate injection and commercial launch | <ul style="list-style-type: none">- Registration certificate for Octreotide Acetate injection has been obtained from SFDA |
|---|---|

Expanding production facilities/capacity

- | | |
|---|--|
| <ul style="list-style-type: none">- Arrange GMP certification of in-vitro diagnostic reagent manufacturing facilities | <ul style="list-style-type: none">- In June this year, SFDA issued the "Detailed Rules for the Implementation of the Production of In Vitro Diagnostic Reagents (Interim)" (《體外診斷試劑生產實施細則(試行)》). The Group will carry out the certification of its manufacturing facilities under the arrangement of such State policy |
| <ul style="list-style-type: none">- Continue to enhance existing production facilities | <ul style="list-style-type: none">- A construction engineering design contract for the improvement of existing production facilities has been signed. It is anticipated that the construction work will commence in September this year |

Forming strategic alliances

- | | |
|--|---|
| <ul style="list-style-type: none">- Continue seeking strategic alliances with bio-chemical diagnostic equipment manufacturers to explore business opportunities in the PRC and overseas market | <ul style="list-style-type: none">- The Group is collaborating with Quawell Technology, Inc. on the research and development of bio-chemical diagnostic equipments. |
|--|---|

Management Discussion and Analysis (Continued)

USE OF PROCEEDS

The actual use of proceeds for the six months ended 30 June 2007, 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	Actual
	HK\$'000	HK\$'000
Expanding research and development effort		
in product development	3,050	2,779
Enhancing existing PRC sales network and		
exploring business opportunities in other Asian countries	2,600	2,600
Product promotion	400	400
Expanding production facilities/ capacity	5,000	4,535
Working capital	360	360
Total	11,410	10,674

CAPITAL STRUCTURE, FINANCIAL POSITION AND LIQUIDITY

The Group generally financed its operations with sales generated cash flows, capital contributions from shareholders and bank borrowings. During the period, cash flow from operating activities is approximately RMB7.5 million. There is no new issue of shares and new bank borrowings for the period.

As at 30 June 2007, the Group had the cash and bank balances approximately RMB149 million (as at 31 December 2006: approximately RMB155 million). The Group’s bank borrowings amounted to RMB90 million as at 30 June 2007 and 31 December 2006. Such borrowings are denominated in Renminbi and at fixed interest rates. The Group is in a net cash position of approximately RMB59 million (as at 31 December 2006: approximately RMB65 million). The gearing ratio (defined as total bank loans over the equity attributable to shareholders of the Company) is 53.6% (as at 31 December 2006: 52.7%).

Management Discussion and Analysis (Continued)

FOREIGN CURRENCY RISK

The Group operates principally in the PRC except for limited exposure to foreign exchange rate risk arising principally with respect to the cash proceeds denominated in Hong Kong Dollar from our placing of H shares, which is held as bank deposits in China.

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2007 and 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 RMB54,859,000 and RMB55,654,000 respectively at the balance sheet date.

CONTINGENT LIABILITIES

As at 30 June 2007 and 31 December 2006, the Group had no any contingent liabilities.

EMPLOYEE

On 30 June 2007, approximately 540 employees (as at 31 December 2006: approximately 511) were employed by the Group. The total staff costs of the Group (including the directors' remunerations) for the period ended 30 June 2007 amounted to approximately RMB18.46 million (2006: approximately RMB15.44 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.

APPRECIATION

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

By order of the Board

Biosino Bio-Technology and Science Incorporation

Mr. Wu Lebin

Chairman

Beijing, the PRC, 8 August 2007

The Board of Directors (the "Board") of the Company announced the unaudited consolidated results of the Group for the three months and six months ended 30 June 2007 and the unaudited condensed consolidated balance sheet of the Group as at 30 June 2007, together with the comparative figures in 2006, as follows:

Condensed Consolidated Income Statement

For the three months and six months ended 30 June 2007

	Notes	Three months ended 30 June		Six months ended 30 June	
		2007 Unaudited RMB'000	2006 Unaudited RMB'000	2007 Unaudited RMB'000	2006 Unaudited RMB'000
REVENUE	2, 3	47,188	38,171	83,652	68,170
Cost of sales		(16,472)	(12,664)	(29,318)	(22,525)
Gross profit		30,716	25,507	54,334	45,645
Other income		2,033	373	3,688	444
Selling and distribution expenses		(11,322)	(10,703)	(18,582)	(17,821)
Administrative expenses		(11,227)	(6,803)	(19,776)	(12,322)
Research and development costs		(2,029)	(2,223)	(5,018)	(4,029)
Other operating expenses		(161)	–	(556)	–
PROFIT FROM OPERATING ACTIVITIES	4	8,010	6,151	14,090	11,917
Finance costs	5	(1,390)	(496)	(2,732)	(1,044)
PROFIT BEFORE TAX		6,620	5,655	11,358	10,873
Tax	6	(1,830)	(977)	(3,294)	(1,624)
PROFIT FOR THE PERIOD		4,790	4,678	8,064	9,249
Attributable to:					
Shareholders of the Company		4,180	4,364	7,182	8,682
Minority interests		610	314	882	567
		4,790	4,678	8,064	9,249
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	7				
– Basic (RMB)		0.042	0.044	0.072	0.098
– Diluted		N/A	N/A	N/A	N/A

Condensed Consolidated Balance Sheet

As at 30 June 2007

		30 June	31 December
		2007	2006
		Unaudited	Audited
	<i>Notes</i>	RMB'000	RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment		110,129	111,266
Prepaid land premiums		6,881	6,957
Goodwill		471	309
Know-how		2,219	2,238
Trade and bills receivables	9	1,830	1,530
Total non-current assets		121,530	122,300
Current assets:			
Prepaid land premiums		146	146
Inventories		21,492	21,199
Trade and bills receivables	9	37,079	27,963
Prepayments, deposits and other receivables		13,672	10,581
Financial assets at fair value through profit or loss		195	–
Pledged bank balance		3	3
Cash and cash equivalents		149,247	154,580
Total current assets		221,834	214,472
TOTAL ASSETS		343,364	336,772

Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2007

		30 June	31 December
		2007	2006
		Unaudited	Audited
	<i>Notes</i>	RMB'000	RMB'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	10	100,018	100,018
Reserves		68,014	60,832
Proposed final dividend		–	10,002
		168,032	170,852
Minority interests		20,328	18,872
TOTAL EQUITY		188,360	189,724
Non-current liabilities:			
Government grants		12,820	12,820
Bank borrowings		80,000	80,000
Total non-current liabilities		92,820	92,820
Current liabilities:			
Trade and bills payables	11	6,665	2,355
Other payables and accruals		40,125	35,866
Taxes payable		5,394	6,007
Bank borrowings		10,000	10,000
Total current liabilities		62,184	54,228
TOTAL LIABILITIES		155,004	147,048
TOTAL EQUITY AND LIABILITIES		343,364	336,772

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to shareholders of the Company							
	Issued share capital	Capital reserves#	Statutory reserves	Retained Profits	Proposed final dividend	Total	Minority interests	Total equity
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
At 1 January 2006	70,018	7,544	17,286	7,810	10,002	112,660	10,283	122,943
Proceeds from issuing of new H shares	30,000	31,200	-	-	-	61,200	-	61,200
Share issuance costs	-	(12,301)	-	-	-	(12,301)	-	(12,301)
Profit for the period and total income and expense for the period	-	-	-	8,682	-	8,682	567	9,249
Final 2005 dividend declared	-	-	-	-	(10,002)	(10,002)	-	(10,002)
Acquisition of an interest in a subsidiary	-	-	-	-	-	-	1,577	1,577
Dividend declared to a minority shareholder	-	-	-	-	-	-	(2,900)	(2,900)
At 30 June 2006	100,018	26,443	17,286	16,492	-	160,239	9,527	169,766
At 1 January 2007	100,018	30,309[†]	20,179[†]	10,344[†]	10,002	170,852	18,872	189,724
Profit for the period and total income and expense for the period	-	-	-	7,182	-	7,182	882	8,064
Final 2006 dividend declared	-	-	-	-	(10,002)	(10,002)	-	(10,002)
Acquisition of an interest in a subsidiary	-	-	-	-	-	-	574	574
At 30 June 2007	100,018	30,309[†]	20,179[†]	17,526[†]	-	168,032	20,328	188,360

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 RMB68,014,000 and RMB60,832,000 in the consolidated balance sheets as at 30 June 2007 and 31 December 2006, respectively.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Six months ended	
	30 June	
	2007	2006
	Unaudited	Unaudited
	RMB'000	RMB'000
Net cash inflow from operating activities	7,498	5,381
Net cash outflow from investing activities	(5,309)	(13,295)
Net cash inflow/(outflow) from financing activities	(7,522)	67,125
Increase/(decrease) in cash and cash equivalents	(5,333)	59,211
Cash and cash equivalents at beginning of period	154,580	37,840
Cash and cash equivalents at end of period	149,247	97,051

Condensed Notes to the Financial Statements

1. BASIS OF PREPARATION

The unaudited condensed consolidated accounts for the three months and six months ended 30 June 2007 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 (“HKICPA”) and accounting principles generally accepted in Hong Kong. The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated accounts are consistent with those used in the Company’s audited financial statements for the year ended 31 December 2006.

2. 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.

Condensed Notes to the Financial Statements (Continued)

2. SEGMENT INFORMATION (CONTINUED)

(a) Business segments

The following tables present revenue and results for the Group's business segments for each of the six months ended 30 June 2007 and 2006.

Six months ended 30 June 2007

	In-vitro diagnostic reagent products Unaudited RMB'000	Pharma- ceutical product Unaudited RMB'000	Eliminations Unaudited RMB'000	Total Unaudited RMB'000
Segment revenue:				
Sales to external customers	54,026	29,626	-	83,652
Other income	2,996	-	-	2,996
Total	57,022	29,626	-	86,648
Segment results	9,281	4,117		13,398
Interest income				692
Profit from operating activities				14,090
Finance costs				(2,732)
Profit before tax				11,358
Tax				(3,294)
Profit for the period				8,064

Condensed Notes to the Financial Statements (Continued)

2. SEGMENT INFORMATION (CONTINUED)

(a) Business segments (Continued)

Six months ended 30 June 2006

	In-virto diagnostic reagent products Unaudited RMB'000	Pharma- ceutical product Unaudited RMB'000	Eliminations Unaudited RMB'000	Total Unaudited RMB'000
Segment revenue:				
Sales to external customers	43,652	24,518	–	68,170
Other income	24	–	–	24
Total	43,676	24,518	–	68,194
Segment results	8,821	2,676		11,497
Interest income				420
Profit from operating activities				11,917
Finance costs				(1,044)
Profit before tax				10,873
Tax				(1,624)
Profit for the period				9,249

(b) Geographical segments

No geographical segmental analysis is presented as all of the Group's operations were located in Mainland China for each of the six months ended 30 June 2007 and 2006.

Condensed Notes to the Financial Statements (Continued)

3. REVENUE

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 for the three months and six months ended 30 June 2007 is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
Sale of in-vitro diagnostic reagent products	30,774	24,622	54,026	43,652
Sale of a pharmaceutical product	16,414	13,549	29,626	24,518
	47,188	38,171	83,652	68,170

4. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities was arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
Depreciation	2,551	1,888	4,973	3,319
Amortisation of know-how	108	107	214	185
Amortisation of prepaid land premiums	39	37	77	73

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
Interest on bank loans	1,390	496	2,732	1,044

Condensed Notes to the Financial Statements (Continued)

6. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2007 (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. According to the relevant PRC income tax law, the Company and its subsidiaries, being registered as new and high technology enterprises in Beijing, are entitled to concessionary income tax rates of 15% and 7.5% in their respective subsidiaries, which have been applied for both periods.

	Three months ended		Six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	Unaudited	Unaudited	Unaudited	Unaudited
	RMB'000	RMB'000	RMB'000	RMB'000
Group:				
Current – Mainland China	1,830	977	3,294	1,624

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2007 is based on the unaudited profit attributable to shareholders of the Company for the period and the weighted average of 100,017,528 (2006: 100,017,528) registered shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the unaudited profit attributable to shareholders of the Company for the period and the weighted average of 100,017,528 (2006: 88,693,025) registered shares in issue during the period.

No diluted earnings per share have been presented as no diluting event existed during the three months and six months ended 30 June 2007 (2006: Nil).

8. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

Condensed Notes to the Financial Statements (Continued)

9. 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 as at the balance sheet date based on invoice date, are as follows:

	30 June 2007 Unaudited RMB'000	31 December 2006 Audited RMB'000
Within 3 months	30,883	22,778
4 to 6 months	4,062	2,361
7 to 12 months	2,296	1,749
1 to 2 years	2,378	3,084
Over 2 years	2,023	1,674
	41,642	31,646
Less: Provision for doubtful receivables	(2,733)	(2,153)
	38,909	29,493
Less: Portion classified as current assets	(37,079)	(27,963)
Non-current portion	1,830	1,530

Included in the trade and bills receivables of the Group as at 30 June 2007 was an aggregate amount of RMB1,830,000 (as at 31 December 2006: RMB1,530,000) due from certain established customers of the Group for several instalment sales contracts entered into with payment terms ranging from two to four years. The balances are unsecured and interest-free.

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

Condensed Notes to the Financial Statements (Continued)

10. SHARE CAPITAL

	30 June 2007 Unaudited RMB'000	31 December 2006 Audited RMB'000
Registered, issued and fully paid:		
67,017,528 Domestic shares of RMB1.00 each	67,018	67,018
33,000,000 H shares of RMB1.00 each	33,000	33,000
	100,018	100,018

11. TRADE AND BILLS PAYABLES

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

	30 June 2007 Unaudited RMB'000	31 December 2006 Audited RMB'000
Outstanding balances aged:		
Within 3 months	6,098	1,744
4 to 6 months	118	322
7 to 12 months	324	73
1 to 2 years	54	114
Over 2 years	71	102
	6,665	2,355

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

Condensed Notes to the Financial Statements (Continued)

12. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2007 (as at 31 December 2006: Nil).

13. CAPITAL COMMITMENTS

(i) The Group had the following capital commitments at the balance sheet date:

	30 June 2007 Unaudited RMB'000	31 December 2006 Audited RMB'000
Authorised, but not contracted for:		
Land and buildings	-	-
Plant and machinery	-	-
	-	-

(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, Alprostadiol 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 SFDA 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 unaudited condensed consolidated accounts, the Group has not made any compensation to the IBP under the aforesaid agreement.

Condensed Notes to the Financial Statements (Continued)

14. RELATED PARTY TRANSACTIONS

- (a) The Group had the following transactions with related parties during the period:

	Notes	Six months ended	
		2007	2006
		Unaudited RMB'000	Unaudited RMB'000
CONTINUING TRANSACTIONS:			
Technical service fee paid	(i)	250	250
DISCONTINUED TRANSACTIONS:			
Rental paid by Baiao Pharmaceuticals in respect of operating lease arrangements of office properties, factory premises and warehouses	(ii)	–	233
Water and electricity fees paid by Baiao Pharmaceuticals	(ii)	–	84

Notes:

- (i) 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 for using the Reagent Technologies in prior years. In the opinion of the directors, the technical service fee was determined based on negotiation and by reference to the valuation of the Reagent Technologies performed by an independent PRC asset appraisal valuer in August 2000.
- (ii) 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.

Condensed Notes to the Financial Statements (Continued)

14. RELATED PARTY TRANSACTIONS (Continued)

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

	Six months ended	
	30 June	
	2007	2006
	Unaudited	Unaudited
	RMB'000	RMB'000
Short term employee benefits	3,359	3,440
Post-employment benefits	-	-
Total compensation paid to key management personnel	3,359	3,440

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

Discloseable Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, 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

As at 30 June 2007, 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.

Discloseable Information (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, 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	Type of shares	Number of shares held	Percentage of the Company's respective type of shares (%)	Percentage of the Company's total register capital (%)
Institute of Biophysics of the Chinese Academy of Sciences	Domestic shares	31,308,576	46.72	31.30
Beijing Enterprises Holdings High-Tech Development Co., Ltd. ("BEHT")	Domestic shares	24,506,143	36.57	24.50
Beijing Enterprises Holdings Limited ("BEHL") (Note)	Domestic shares	24,506,143	36.57	24.50
Pheim Asset Management (Asia) Pte. Ltd.	H shares	3,050,000	9.24	3.05
YHT NO.8 (YHT 8 GOU TOUSHIJIGYOKUMIAI)	H shares	2,300,000	6.97	2.30
Deutsche Bank Aktiengesellschaft	H shares	1,840,000	5.58	1.84

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 30 June 2007, 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.

Discloseable Information (Continued)

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 subsidiary any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights as at 30 June 2007.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

COMPLIANCE ADVISER'S INTEREST

As updated and notified by the Company's compliance adviser, Partners Capital International Limited (the "Compliance Adviser"), none of the Compliance Adviser, or its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company as at 30 June 2007 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.

Discloseable Information (Continued)

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company always puts strong emphasis on the superiority, steadiness and rationality of corporate governance. The Company has complied with all the code provisions in the Code on Corporate Governance Practice (the "Code") by establishing a formal and transparent procedures to protect and maximise the interests of shareholders during the period under review, except for the deviation that Mr. Wu Lebin assumes the role of both the chairman of the Board and the president of the Company. The Board is of the view that it is in the best interests of the Group to have Mr. Wu, who have vast and solid experience in the medical industry to perform the dual role so that the Board can have the benefits of a chairman who is knowledgeable about the business of the Group and is most capable to guide and brief the Board in a timely manner on pertinent issues.

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 Group's unaudited condensed consolidated accounts for the six months ended 30 June 2007 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the period.