ANNUAL REPORT **2007**

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

PROGRESSIVE EXPANSION
SOLID IMPROVEMENT

* For Identification Purpose Only

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 mission 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. Cheung Yeung 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 the People's Republic of China ("PRC"). 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.

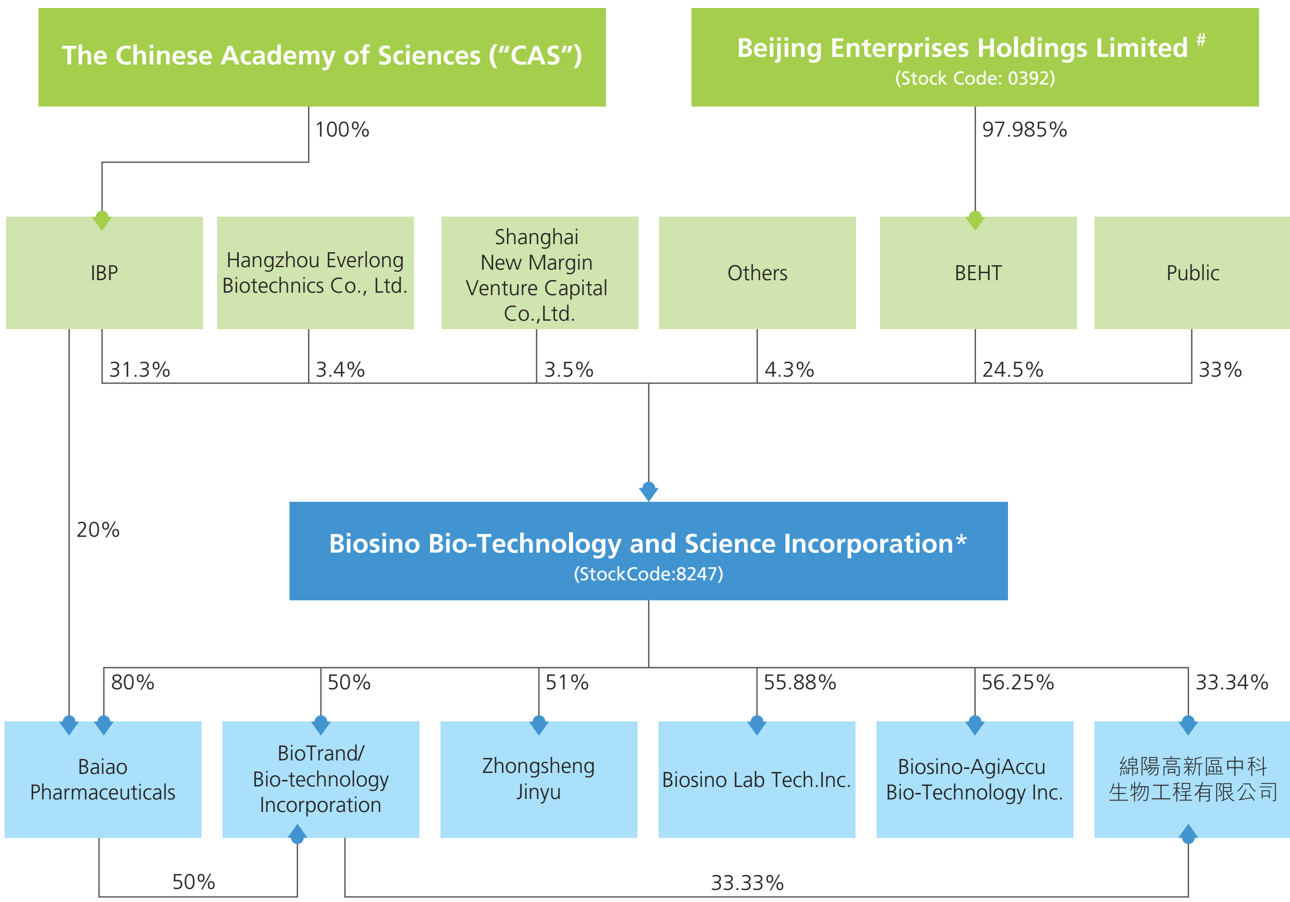
The Group ranked No. 1 in the conventional chemistry reagent market in China. Lumbrokinase capsule is included in the Drugs Catalogue of National Basic Medical Insurance (國家基本醫療保險藥品目錄) and Reimbursable Drugs Catalogue of Public Medical and Labour Insurance in Beijing Municipality (北京市公費醫療、勞保醫療用藥報銷範圍), 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 17 March 2008

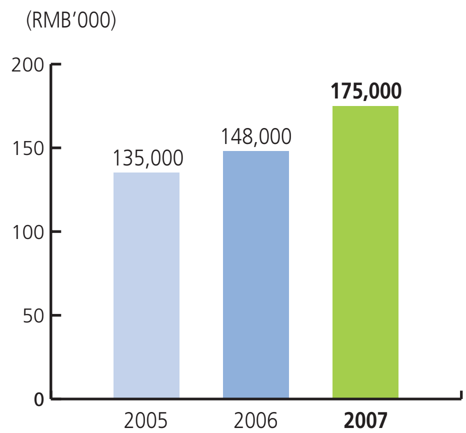


* Listed on the GEM of the Stock Exchange
# Listed on the Main Board of the Stock Exchange

FINANCIAL HIGHLIGHTS

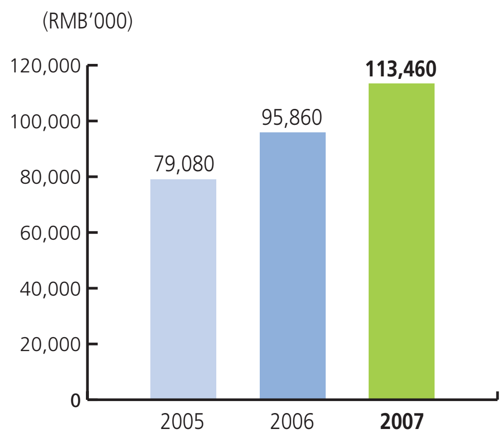
- Revenue for the year kept growing to RMB175 million, representing an increase of 18.2% from that of last year.
- Profit from operating activities for the year amounted to RMB35.78 million, representing an increase of 13.6% from that of last year.
- Profit for the year amounted to RMB22.00 million, representing an increase of 4.4% from that of last year.
- Profit attributable to shareholders of the Company for the year amounted to RMB19.93 million.
- A final dividend of RMB0.1 per share is proposed for the year ended 31 December 2007.

1. REVENUE FOR THE YEAR

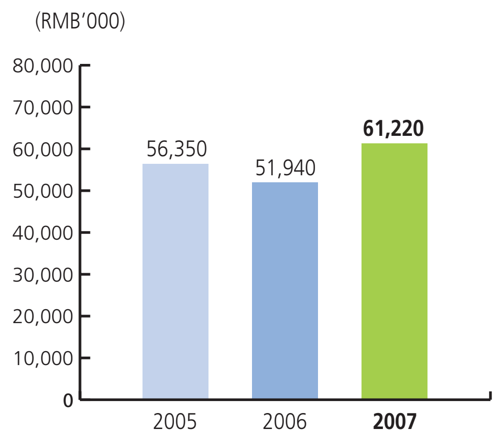


2. REVENUE BY PRODUCT

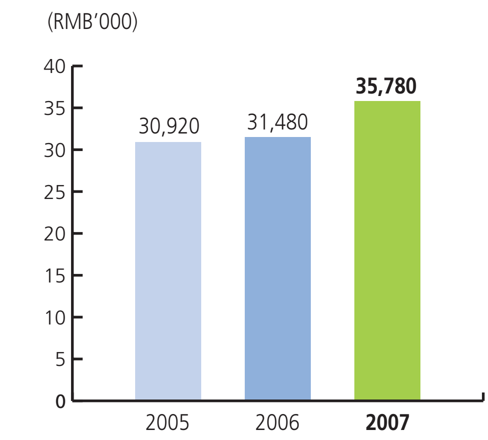
a) In-vitro Diagnotic Reagents



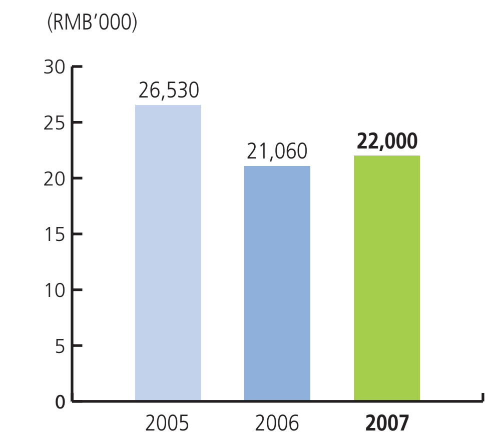
b) Pharmaceutical Products



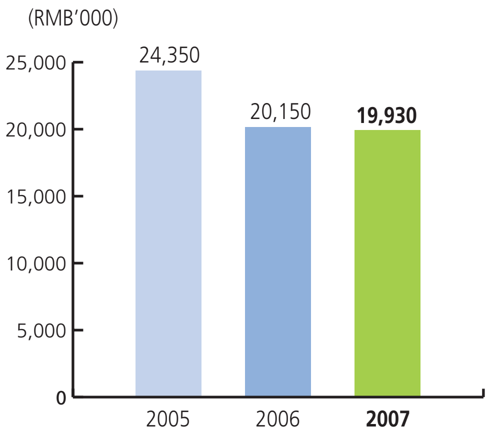
3. PROFIT FROM OPERATING ACTIVITIES



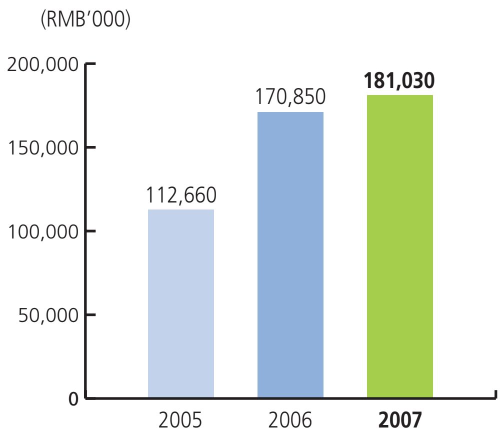
4. PROFIT FOR THE YEAR



5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS



6. EQUITY ATTRIBUTABLE TO SHAREHOLDERS



Progressive Expansion
SOLID IMPROVEMENT

Mr. Wu Lebin,
Chairman of the Board

Dear shareholders,

With great pleasure and on behalf of the board of directors (the "Board"), I hereby present to you the annual report of Biosino Bio-Technology and Science Incorporation and its subsidiaries for the year ended 31 December 2007.

It is the Group's objective to take care of and maximize the interest of our shareholders. Inheriting the principle of "technologies enrich living standard", the Group will advocate the corporate spirit of "integrity, collaboration, dedication, innovation" as well as pursuing the value of "integrity being the foremost ethics" and strive to become the pioneer to engage in the protein related business by devoting its resources to in-vitro diagnostic and biological pharmaceuticals. The Group will counter the opportunities and challenges brought about by the prosper development of biological technology in this century by constantly importing and recruiting the worldwide latest technology with regard to in-vitro diagnostic and pharmaceutical products, and integrates such technology with the Company's own characteristics to further improve and innovate for the purpose of developing new products and enhance the Company's core competitiveness.

During the year, the Group endeavored to explore new business areas, enhanced its quality control system, expanded its sales network as well as consolidated its research and development capability, to which each operating objectives set out by the Board are fully accomplished, therefore ensured a steady development.

FINANCIAL RESULTS

During the year, the revenue of the Group was RMB175 million, representing an increase of 18.2% as compared with the corresponding period of last year. Profit from operating activities was RMB35.78 million, representing an increase of 13.6% as compared with the corresponding period of last year. Profit attributable to shareholders was RMB19.93 million, representing a decrease of 1.1% as compared with the corresponding period of last year. Cash and cash equivalents at the balance sheet date was approximately RMB149 million, showing a relatively strong capital position of the Group.

The Group has always been awared of striking the balance between new and existing businesses. While safeguarding the steady development of the existing business, the Group also actively explores new point of growth and maintains its development momentum. Revenue from sale of in-vitro diagnostic reagents for the year was approximately RMB113.46 million, representing

65% of total revenue; when comparing to RMB95.86 million over the same period last year, there was an increase of 18.4%. Revenue from sale of pharmaceutical products was approximately RMB61.22 million, representing 34.8% of total revenue; when comparing to RMB51.94 million over the same period last year, there was an increase of 17.9%. Research and development cost for the year amounted to RMB12.22 million, representing 7% of total revenue and reached a record high.

DIVIDEND

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 2007. The Board believes that given its future financial condition and cash flow, the Group is capable of maintaining the sufficient funds required for continuing development.

The Group will make its best endeavours to contribute positive returns to its shareholders.

BUSINESS REVIEW

Following the introduction of the new government policies regarding pharmaceutical industry, the operating environment of the entire industry is improving gradually while growth is reinstated. Under such market conditions, the Group reinforced its marketing and sales effort and aggressively approached new customers in 2007, enabled stable but rapid development for all of its businesses.

During the reported period under review, revenue from in-vitro diagnostic reagent business increased by 18.3% to RMB113.4 million. The increase in revenue is mainly driven by the rise in sales of the Group's reagent products, of which Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd. ("Zhongsheng Jinyu"), a subsidiary of the Group, recorded a 40% increase in revenue.

During the reported period, the Group strengthened its effort in research and development, improved its exiting products and introduced new products. Our research and development department achieved a healthy progression, whereby five of our new products obtained product registration certificates, whereas the certificates of another five new products are currently under approval. In addition, the Group undertook the government's research and development plans and projects to enhance its innovation ability and to expand the product range, while a new batch of products are currently under development.

During the reported period, the Group's quality control system and products obtained the CE certification awarded by TüV Rheinland of Germany. The products that are qualified for such CE certification are nine of our biological reagent products. CE certification is the permit for admission to EU market, representing our products have fulfilled the safety, sanitary, environmental and consumer protection standards required by a number of European Directives and can be sold in all EU member countries. Obtaining the CE certificate has laid the foundation for the Group to develop international business.

During the reported period, tender purchase became the standard form of purchase following the State introduced its latest medical reform. Due to the reinforcement of the Group's effort in marketing and expansion, the Group won all of the 35 tenders it participated that held in 15 provinces and cities. Ten 3A Graded hospitals are added to our customer portfolio. Meanwhile, the Group has cooperated with a Japanese company 'Shimadzu' to sell automated biochemical analyzers. Such move may boost the Group's revenue in sale of devices and diagnostic reagents in the foreseeable future.

During the reported period, the Group constructed a new manufacturing plant of over 1,100 square meters in compliance with GMP standards in the Science and Technology Industrial Park in Changping District, Beijing. The new plant has become the production line for immune diagnostic reagents, samples and other new products, which further enhanced the productivity of the Group. In addition, the Group launched the "Detailed Management Year" campaign which strengthened its effort in staff training that improved the overall quality of its staff and thus improved the Group's development capability. I believe such achievements can bring about fruitful returns in the coming future.

PROSPECT

There had been a number of uncertainties on the development of medical industry stemmed from the reform and rationalization measures over the past few years. However, we believe the downward cycle of China medical industry is coming to an end now and that the medical industry will remain one of the sectors with the highest growth rate in China. As medical affairs has been ranking high in public agenda, and with increasing government expenditure on medical sector and introduction of reform measures towards the industry, market sentiment and business environment of the industry are set to improve further, which will serve as a solid foundation for the healthy and stable development of the industry. There has been greater demand for diagnostic and pharmaceutical products in China in conjunction with better economic conditions, improved living standard, increased health awareness of the public, generally longer life expectancy and aging population. As a result, the market for diagnostic and pharmaceutical products is expanding, thereby presenting tremendous business opportunities to the Group.

At the same time, the State has put forward a series of policies to promote self-innovation, which will further stimulate our effort in building up our technological innovation capacity and will support our marketing initiatives.

Relying on nearly two decades of operation history and, in particular, the development over the past few years, the Group has substantially formulated the system framework for in-vitro diagnostic reagent industry. We have completed the production system of protein drugs and we are confident that the efficiency of the system will gradually enhance over time. The increase in the Group's revenue for the year validated my view. The directors of the Company also believe that consistency in policy setting and the improved market environment will further benefit the Group business development in the long run.

Looking forward, the Board is confident about our future business development, and I sincerely hope that we can achieve an excellent business performance and 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 for their guidance and support, and to thank all employees of the Group for their valuable long-term contribution and dedication.

By order of the Board

Wu Lebin
Chairman

Beijing, People's Republic of China
17 March 2008

BUSINESS ENVIRONMENT

In 2007, as China's market continued its opening up to foreign markets, multi-national medical companies eagered to enter into China. Medical industry is facing new competition challenges, which aggravated the market competition and elimination.

China's medical market more generally adopted the bid and tender trading methods, and among them, there was a tendency to follow a simple low price bidding direction. Therefore, the price competition among enterprises was aggravated, causing the drug prices to drop continuously.

At the same time, China's economy and living standard continued to rise, the population continued to grow, the government increased its input into the medical sector and the demand for medical treatment and drugs continued to increase. As the government keened on establishing an innovative country, it launched a series of policies which support self innovative to boost the development of national enterprises.

Under the integrated result of the above environmental factors, the whole medical and pharmaceutical industry was booming under tortuous development, making China to become one of the fastest growing diagnostic reagent markets in Asia. As a leading clinical diagnostic reagents and biochemical pharmaceutical product manufacturer in China, with a competitive advantage in quality and price, the Group is able to maintain a foothold in the industry and is expected to keep expanding in its business.

BUSINESS REVIEW

Revenue

Currently, the Group's major products include: i) 81 types of in-vitro diagnostic reagents approved by the State Food and Drug Administration of the PRC ("SFDA") (including 64 types of biochemical in-vitro diagnostic reagents, 15 types of immuno in-vitro diagnostic reagents and 2 types of apparatus) and ii) Lumbrokinase capsule, a Class II prescription drug approved by SFDA and other pharmaceutical products.

In 2007, the Group's consolidated revenue amounted to approximately RMB175 million, representing an increase of 18.2% 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 18.4% to RMB113.46 million from that of last year, accounted for 65% of the total revenue. In terms of the pharmaceutical products, the revenue of Lumbrokinase capsules increased by 17.9% to RMB61.22 million.

Research and Development Costs

In 2007, the research and development achievements of the Group included: i) obtained the register of 5 new research and development products including Fecal Occult Kit, Direct HDL-Cholesterol Assay Kit, Carbon Dioxide Kit, Creatinine Kit, Direct HDL-Cholesterol Assay Kit and Quality Control Serum for Endocrinology; ii) Completion in the research and product standard filing, including C-Reactive Protein Calibrator, Specific Protein Calibrator, Iron Kit, Creatinine Control, Haptoglobin Kit; iii) Alpiostadil, for injection usage, is in the stage of technical review by SFDA approval center; iv) Pancreatic Kininogenase Enteric-coated capsule is in the stage of the technical review by SFDA approval center. At the same time, the establishment of antibody substances research laboratory have been commenced. Total research and development expenses for the year amounted to RMB12.22 million, representing an increase of 30.3% as compared with that of last year. The increase in research and development expenses was mainly due to the expansion of research and development capacity and number of research projects increased.

Profit Attributable to Shareholders

The Group's profit attributable to shareholders of the Company for the year was approximately RMB19.93 million, representing a decrease of 1.1% from that of last year. The increase in research and development expenditure and the increase of research projects leading to the decrease in the overall profit attributable to shareholders.

Production Facilities

In 2007, the Group established a production line in it's base at Science and Technology Industrial Park located in Changping District of Beijing for immune diagnostic reagents according to the GMP standard, which enhanced to increase the Group's production capacity.

PROSPECT AND FUTURE OUTLOOK

The Group believes, in macro situation, the industry's development has more opportunities than challenges. The speedy growth of China's economy, the stable development of the society and the focus together with input on medical industry from the government will all trigger the need of people's health in order to enlarge the industry continuously. The government-led scientific innovation policy will definitely enhance enterprises' creativity. These are going to be the leading factors that change the fundamental of the environment.

As the integrated result of the above factors, in-vitro diagnostics product and biochemical drugs in China is a competitive and fast-developing business. The Group has configured a primary scale in clinical biochemical diagnosis and protein related drug. As time goes by and the input in place, the output will come into effect and production will gradually show results. Under the support from the national 863 plan and other scientific policies and plans, product development and creative power will be increasing continuously, thus strengthening the Group's competitive advantages and ensuring the shareholders to have better returns.

CAPITAL STRUCTURE

As at 31 December 2007, there was no change in the capital structure of the Group as compared to last year.

LIQUIDITY AND FINANCIAL POSITION

Cashflow and Financial Position

	2007 year end RMB million	2006 year end RMB million
Cash	**149**	155
Short-term loans	**50**	10
Long-term loans	**40**	80
Net cash	**59**	65
Net debt equity ratio	**N/A**	N/A

The Group generally financed its operations with internally generated cash flows, capital contributions from shareholders and bank borrowings. Cash position decreased by approximately RMB6 million, which was mainly due to the increase of investment projects for the purpose of improving the overall productivity.

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 2007, 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 RMB55,078,000 at the balance sheet date.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group are set out in note 35 to the financial statements.

EMPLOYEES

As at 31 December 2007, the Group had a total of 613 full-time employees (2006: 511 employees) based in Hong Kong and China. The total staff costs of the Group (including the directors' remunerations) for the year ended 31 December 2007 amounted to approximately RMB37.45 million (2006: RMB26.85 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 recognizes 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 year ended 31 December 2007.

Business Objectives	Actual Business Progress
Expanding research and development effort in product development:	
– Completion of clinical experiment and development of Alprostadil injection and Lumbrokinase injection	– The pre-clinical research of Alprostadil injection and Lumbrokinase injection has been completed and a registration application has been filed to the SFDA. At present, the injections are under technical review at the SFDA
– Research planning and study for Tumour Prognostic Solutions and Cardiac Muscular Triple Card Prognostic Solutions	– Certain products, such as Cardiac Troponin, have completed the research stage and are undergoing small-scale production and clinical experiments

Business Objectives	Actual Business Progress
Expanding research and development effort in product development: *(continued)*	
– To complete the research and development of Pancreatic Kininogenase raw material and Pancreatic Kininogenase capsule and Aprotinin injection	– 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
– Research and development of the Protein chip for Biochemical Analysis	– As the market changes, the Group is uncertain about the market response, therefore, the Group put the research and development of the project on hold
– Research and improvement on tumour and Myocardial preliminary diagnostic reagent	– Completed the research and improvement of the products, and the products have been put into production and have launched into the market; completed the research and improvement of Myocardial preliminary diagnostic reagent
– Research and improvement on infectious diseases rapid testing cards	– The product was launched into the market through agents
– To finish the establishment of anti-body substances research laboratory and start the research on anti-body substances	– The laboratory has been established. One anti-body substance has been produced in the laboratory
Enhancing the existing PRC sales network and exploring business opportunities in other Asian countries:	
– Prepare for hosting of the 20th Anniversary of Biosino promotional activities	– Preparation work for such activities is in progress, and the preliminary plan is ascertained
– Further enhancement of marketing plans	– New customers have been served in several countries and regions such as India and Hong Kong – Negotiation with a Singapore company, aiming at studying the feasibility to develop reagent business in Malaysia, is in progress
Introducing new products periodically:	
– Conduct academic promotional activities for Octreotide Acetate injection and Pentoxifylline capsules, and marketing of Pentoxifylline enteric-coated capsules	– 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

Business Objectives	Actual Business Progress
Introducing new products periodically: *(continued)*	
– Launch of C-Reaction Protein rapid testing cards	– 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
– Launch Homocysteine, Lipase diagnostic reagents and Angiotensin converting enzyme kits	– Each project is undergoing its research and assessment stage
– Launch Beta 2-microglobulin diagnostic reagent	– Registration certificate for Beta 2-microglobulin diagnostic reagent has been obtained from SFDA and such product has been launched to the market
– Obtain SFDA new drug certificate for Octreotide Acetate injection	– Registration certificate for Octreotide Acetate injection has been obtained from SFDA
Expanding production facilities/capacity:	
– Continue to enhance existing production facilities	– A construction contract for the improvement of existing production facilities has been signed. It is expected that the construction work will commence in September 2008
Forming strategic alliances	
– Continue seeking strategic alliances with bio-chemical diagnostic equipment manufacturers to explore business opportunities in the PRC and overseas market	– The Group is collaborating with Quawell Technology, Inc. on the research and development of bio-chemical diagnostic equipments. – The Group has established collaboration with Shimadzu in Japan for selling bio-chemical analyzers – The Group's diagnostic reagents are being sold in 10 countries

USE OF PROCEEDS

The actual use of proceeds for the year ended 31 December 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	15,200	15,390
Enhancing the existing PRC sales network and exploring business opportunities in other Asian countries	5,200	5,200
Product promotion	800	800
Expanding production facilities/capacity	10,000	10,000
Working capital	720	720
Total	31,920	32,110

INTRODUCTION

The Company always puts strong emphasis on the superiority, steadiness and rationality of corporate governance. 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 Company has complied with all the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code") for the year ended 31 December 2007 by establishing a formal and transparent procedures to protect and maximise the interests of shareholders during the year under review, 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.

THE BOARD OF DIRECTORS

During the year of 2007, 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 2007, chairman keeps a close relationship with all directors to ensure steady exchange of information with them in the course of operation and decision-making.

Three executive directors are in charge of different areas of duty. One of them acting as the president of the Company, he is always responsible for the management of the Group's day-to-day operations such as production, operation, and financial management. Another one executive director is in charge of the research and technical as well as international relations of the Company. The remaining executive directors are responsible for the overall management of Baiao Pharmaceuticals.

Six non-executive directors are independent of the management and are in possession of solid experience in the business of the industry. These non-executive directors provide significant opinions and contribution to the development of the Company during the year 2007.

The Board fulfilled the minimum requirement of appointing at least three independent non-executive directors, each with a service term of three years, as required by the GEM Listing Rules. They have professional knowledge and extensive experiences in science and technology, medical and economy, it also met the requirement of having one independent non-executive director with appropriate qualification on 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.

During the year of 2007, the Board held totally six meetings, one of which was a regular meeting. The average attendance rate reached 84.7%. 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
9 January 2007	12	9	75%
23 March 2007	12	9	75%
10 May 2007	12	12	100%
8 August 2007	12	12	100%
8 November 2007	12	12	100%
23 November 2007	12	7	58.3%

Name of directors	Number of meetings attended
Mr. Wu Lebin *(Chairman and Executive director)*	6/6
Mr. Zhang Yong *(Vice Chairman and non-executive Director)*	6/6
Dr. Gao Guang Xia *(Vice Chairman and non-executive Director, appointed on 9 January 2007)*	6/6
Dr. Wang Lin *(Executive Director, appointed on 9 January 2007)*	6/6
Mr. Hou Quanmin *(Executive Director, appointed on 9 January 2007)*	6/6
Ms. Li Chang *(Non-executive director)*	6/6
Mr. Rong Yang *(Non-executive director)*	6/6
Mr. Wang Fu Gen *(Non-executive director)*	4/6
Ms. Yu Xiaomin *(Non-executive director)*	5/6
Dr. Cheng Jing *(Independent non-executive Director, appointed on 9 January 2007)*	3/6
Dr. Hua Sheng *(Independent non-executive director)*	4/6
Mr. Chan Yiu Kwong *(Independent non-executive director)*	3/6

CHAIRMAN AND EXECUTIVE DIRECTORS

During the year of 2007, as the chairman of the Board, Mr. Wu Lebin 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. Two other executive Directors of the Company are responsible for the day-to-day operations of the Group.

STOCK EXCHANGE OF THE DIRECTORS AND SENIOR MANAGEMENT

The Group has adopted 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. 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 2007, members of the remuneration committee include all independent non-executive directors, Dr. Hua Sheng, Dr. Cheng Jing 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 the performance of executive directors and certain senior management of the Company. During the year of 2007, one remuneration committee meeting was held, the individual attendance of each member is set out below:

Name of directors	**Number of meetings attended**
Dr. Hua Sheng	1/1
Dr. Cheng Jing	1/1
Mr. Chan Yiu Kwong	1/1

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 8 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 Dr. Cheng Jing (appointed 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 reviewing the financial statements of the Group;

2 Studying carefully all proceedings proposed by the qualified accountant, 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 posses high sense of responsibilities. They have contributed their times and efforts to ensure the board is more effective and objective.

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 year 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 2007, four audit committee meetings were held and the individual attendance of each member is set out below:

Name of directors	Number of meetings attended
Dr. Cheng Jing (appointed 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 Group for the year ended 31 December 2007.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit services performed by the external auditor, including whether such non-audit services could lead to any potential material adverse effect on the Group. During the year under review, auditors' remuneration for audit services is approximately RMB800,000. Other than audit, no services such as due diligence and other advisory services were provided.

DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on pages 39 to 40.

The directors of the Company have confirmed that the preparation of the Group's financial statements is in compliance with the relative regulations and applicable accounting standards. The directors of the Company also promise that the Group's financial statements 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 reviews regarding internal control system 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 to 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 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 starting on 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, 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. In 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 2007.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture, sale and distribution of in-vitro diagnostic reagent products and pharmaceutical products. 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 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 101.

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 16 May 2008. 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 years ended 31 December 2006 and 2007 in accordance with the proposed applications set out in the Company's listing prospectus. Details of the use of the proceeds are set out on page 17 in the annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2006, is set out on page 102. 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 15 to the financial statements.

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Company Law of the PRC which would oblige the Company to offer new shares on a pro rata basis to 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 28(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2007, as determined under the PRC accounting standards and regulations, the Company's capital reserve account of approximately RMB18,361,000 and statutory reserve account of approximately RMB17,734,000 were available for distribution by way of future capitalisation issue. Retained profits of the Company, as at 31 December 2007, amounted to approximately RMB28,588,000, of which RMB10,002,000 has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 26% 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 57% of the total purchases for the year and purchases from the largest supplier included therein amounted to 26%.

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 are as follows:

Chairman and non-executive director:
Dr. Rao Zihe (Resigned on 9 January 2007)

Chairman and executive director:
Mr. Wu Lebin

Vice chairman and non-executive directors:
Mr. Zhang Yong
Dr. Gao Guang Xia (Appointed on 9 January 2007)

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:
Dr. He Rongqiao (Resigned on 9 January 2007)
Ms. Li Chang
Mr. Rong Yang
Mr. Wang Fu Gen
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 GEM (the "GEM Listing Rules") of the Stock Exchange, and as at the date of this report, the Board still considers each of them to be independent.

EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

Details of emoluments of directors and the five non-director/supervisor, highest paid individuals are set out in notes 8 and 9 to the financial statements.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out on pages 32 to 38 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors (including the independent non-executive directors and the supervisors) has entered into a service contract with the Company for a term of three years commencing from 9 January 2007 and 31 January 2007, respectively.

Apart from the foregoing, no director or supervisor had entered into or is proposed to enter into any service contract with the Company which is not determinable 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 A CONTRACT

Mr. Gao Guang Xia, a non-executive director of the Company, entered into an agreement with 綿陽高新區中科生物工程有限公司 ("ZhongKe", a subsidiary of the Company) to form a joint venture named 綿陽高新區科力生物醫藥有限公司 ("KeLi") to engage in the development, manufacture and distribution of enzyme and biological products. KeLi was subsequently established in Mainland China as a limited liability company with a registered capital of RMB500,000 and is owned as to 30% and 70% by Mr. Gao Guang Xia and ZhongKe, respectively. Further details of KeLi and the transaction undertaken in connection therewith are included in notes 19 and 39(b) to the financial statements, respectively. Mr. Gao Guang Xia subsequently transferred all his interest in KeLi to a third party on 6 December 2007.

Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, the interests 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 otherwise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company:

Name	Number of the Company's domestic shares held	Percentage of the Company's domestic shares	Percentage of the Company's total registered share capital
Mr. Wu Lebin *(note)*	1,000,000	1.5%	1.00%
Mr. Hou Quanmin *(note)*	150,000	0.2%	0.15%

Note: The directors are the registered holders and beneficial owners of the respective domestic shares.

Save as disclosed above, as at 31 December 2007, none of the directors or supervisors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' 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, nor had any of them exercised any such rights as at 31 December 2007.

CONTRACT OF SIGNIFICANCE

The Group has a number of contracts with the Institute of Biophysics of the Chinese Academy of Sciences (the "IBP"), a shareholder of the Company with a 31.3% equity interest in the Company, for (i) the licensing of the technologies owned by the IBP in regard to the production of diagnostic reagents; (ii) the purchases of plant and equipment; and (iii) the leasing of office premises from the IBP.

The contract terms have been reviewed by the independent non-executive directors, who confirmed that the transactions were: (i) conducted in the ordinary course of business of the Group; (ii) entered into in accordance with the terms of the contracts governing such transactions; and (iii) fair and reasonable as far as the shareholders of the Company are concerned. Further details of the transactions undertaken in connection with these contracts during the year are included in note 39(a) to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, as far as is known to any directors and supervisors of the Company, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company:

Name	Capacity and nature of interest	Number of the Company's shares held: Domestic Shares	Number of the Company's shares held: H Shares	Percentage of the Company's respective type of shares	Percentage of the Company's total registered capital
The IBP	Directly beneficially owned	31,308,576	–	46.7%	31.3%
Beijing Enterprises Holdings High-Tech Development Co., Ltd. ("BEHT")	Directly beneficially owned	24,506,143	–	36.6%	24.5%
Beijing Enterprises Holdings Limited ("BEHL") *(note)*	Through a controlled corporation	24,506,143	–	36.6%	24.5%
Beijing Enterprises Group (BVI) Company Limited ("BE(BVI)") *(note)*	Through controlled corporations	24,506,143	–	36.6%	24.5%
北京控股集團有限責任公司 (Beijing Enterprises Group Company Limited) ("BEGC") *(note)*	Through controlled corporations	24,506,143	–	36.6%	24.5%
Chung Shek Enterprises Company Limited	Through controlled corporations	–	3,800,000	11.52%	3.8%
K.C. Wong Education Foundation	Directly beneficially owned	–	3,800,000	11.52%	3.8%
Pheim Asset Management (Asia) Pte Ltd	Through controlled corporations	–	3,050,000	9.24%	3.05%
YHT No. 8 (YHT 8 Gou Toushijigyokumiai)	Through controlled corporations	–	1,976,000	5.99%	1.98%
Deutsche Bank Aktiengesellschaft	Through controlled corporations	–	1,840,000	5.58%	1.84%

Note: These domestic shares are registered in the name of BEHT. BEHL, BE(BVI) and BEGC are the immediate holding company, an intermediate holding company and the ultimate holding company of BEHT, respectively. Accordingly, each of them is deemed to be interested in the domestic shares of the Company owned by BEHT.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

Save as disclosed above, as far as is known to any directors or supervisors of the Company, as at 31 December 2007, no person, other than the directors or supervisors of the Company, whose interests are set out in the section "Directors' and supervisors' interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

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 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 roles 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 of guiding and briefing the Board in a timely manner on pertinent issues.

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 represent the interests of the Company and/or the Group, pursuant to the GEM Listing Rules.

COMPLIANCE ADVISOR'S INTEREST

As updated and notified by the Company's compliance advisor, Partners Capital International Limited (the "Compliance Advisor"), neither the Compliance Advisor, 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 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 Advisor, the Compliance Advisor will receive a fee for acting as the Company's compliance advisor 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in notes 39 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

AUDIT COMMITTEE

The Company has established an audit committee on 10 February 2006 with its 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 the three independent non-executive directors, namely, Dr. Cheng Jing, Dr. Hua Sheng and Mr. Chan Yiu Kwong. The Group's audited results have been reviewed by the three independent non-executive directors of the Company.

AUDITORS

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

ON BEHALF OF THE BOARD

Wu Lebin
Chairman

Beijing, People's Republic of China
17 March 2008

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 2007 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 2007. It is expected that the Company will spare more efforts in getting continuous revenue growth, exercising better cost control and risk management. In 2008, 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, People's Republic of China
17 March, 2008

DIRECTORS

Chairman of the Board

Dr. Rao Zihe （饒子和博士）, aged 57, 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 45, is the Chairman, 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 be 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.

Vice Chairman and Executive Director

Mr. Zhu Yigui （朱以桂先生）, aged 70, 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. Zhang Yong （張勇先生）, aged 41, 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, and was appointed as the Company's vice chairman and non-executive Director in January 2007.

Dr. Gao Guang Xia （高光俠博士）, aged 42, 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's degree in science, majoring in biochemistry, and obtained a doctoral degree from the 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.

Executive Directors

Dr. Wang Lin（王琳博士）, aged 40, 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 41, 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.

Non-executive Directors

Dr. He Rongqiao（赫榮喬博士）, aged 53, 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 41, 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 48, 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.

Mr. Wang Fu Gen（王福根先生）, aged 44, 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 67, 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.

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 44, 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 55, 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 43, 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, a company listed on the Main Board of the Hong Kong Stock Exchange, since July 2001 and currently serves as the Company's 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 50, 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 53, 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 38, 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 49, 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 45, 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 44, 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 41, 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 45, 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 39, 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 and resigned in December 2007.

Mr. Gao Sheng Li（高勝利先生）, aged 39, is the financial controller of the Company who is responsible for the financial affairs of the Group. Mr. Gao graduated from Capital University of Economics and Business (首都經貿大學) with a bachelor's degree in economics, and obtained the college qualification in international trade accounting from Beijing Technology and Business University in 1998. He also acquired the master degree in business management from Renmin University of China in 2005. From 1994 to 2007, Mr. Gao was the financial and business manager of Siemens Communication Networks Ltd., Beijing (北京西門子通訊網絡股份有限公司). Mr. Gao possess over 8 years of experiences in financial administration of multi-national firms. Mr. Gao joined the Company in March 2008.

Mr. Tian Yiguo（田一國先生）, aged 48, 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 37, 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）, 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. 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. He resigned in December 2007

Mr. Cheung Yeung（張洋先生）, aged 28, is the qualified accountant of the Company. Mr. Cheung has obtained a bachelor degree in business administration (accounting) from the Hong Kong University of Science and Technology. Mr. Cheung is a member of the Hong Kong Institute of Certified Public Accountants. He has over 5 years of accounting and auditing experience. Prior to joining the Company in December 2007, Mr. Cheung has worked in Beijing Enterprises Holdings Limited as an accounting manager. Mr. Cheung joined the Company in December 2007.

ERNST & YOUNG

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

We have audited the financial statements of Biosino Bio-Technology and Science Incorporation set out on pages 41 to 101, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 2007 and of the Group's profit and cash flows 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
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
17 March 2008

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**174,672**	147,806
Cost of sales		**(62,087)**	(50,387)
Gross profit		**112,585**	97,419
Other income and gain	5	**14,961**	7,161
Selling and distribution expenses		**(45,499)**	(39,490)
Administrative expenses		**(28,901)**	(23,905)
Research and development expenses		**(12,219)**	(9,375)
Other operating expenses, net		**(5,149)**	(326)
PROFIT FROM OPERATING ACTIVITIES	6	**35,778**	31,484
Finance costs	7	**(6,022)**	(3,754)
Share of loss of a jointly-controlled entity	20	**(632)**	–
PROFIT BEFORE TAX		**29,124**	27,730
Tax	10	**(7,126)**	(6,667)
PROFIT FOR THE YEAR		**21,998**	21,063
Attributable to:			
Shareholders of the Company	11	**19,929**	20,151
Minority interests		**2,069**	912
		21,998	21,063
Dividend	13	**10,002**	10,002
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
– Basic (RMB)		**0.20**	0.20
– Diluted (RMB)		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	**118,998**	111,266
Prepaid land premiums	16	**7,470**	6,957
Goodwill	17	**470**	309
Other intangible assets	18	**2,450**	2,238
Interest in a jointly-controlled entity	20	**268**	–
Trade and bills receivables	23	**1,966**	1,530
Long-term deposits	21	**1,751**	–
Total non-current assets		**133,373**	122,300
Current assets:			
Prepaid land premiums	16	**177**	146
Inventories	22	**24,749**	21,199
Trade and bills receivables	23	**33,716**	27,963
Prepayments, deposits and other receivables	24	**7,936**	10,581
Pledged bank balance	26	**–**	3
Cash and cash equivalents	26	**148,721**	154,580
Total current assets		**215,299**	214,472
TOTAL ASSETS		**348,672**	336,772

	Notes	2007 RMB'000	2006 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	27	**100,018**	100,018
Reserves	28(a)	**71,007**	60,832
Proposed final dividend	13	**10,002**	10,002
		181,027	170,852
Minority interests		**21,965**	18,872
TOTAL EQUITY		**202,992**	189,724
Non-current liabilities:			
Bank borrowings	29	**40,000**	80,000
Deferred income	30	**9,481**	12,820
Other payables and accruals	32	**1,800**	–
Total non-current liabilities		**51,281**	92,820
Current liabilities:			
Trade payables	31	**7,364**	2,355
Other payables and accruals	32	**31,087**	35,866
Taxes payable	33	**6,156**	6,007
Bank borrowings	29	**49,792**	10,000
Total current liabilities		**94,399**	54,228
TOTAL LIABILITIES		**145,680**	147,048
TOTAL EQUITY AND LIABILITIES		**348,672**	336,772

Wu Lebin
Director

Wang Lin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

		Attributable to shareholders of the Company							
	Notes	**Issued capital** RMB'000	**Capital reserves#** RMB'000	**Statutory reserves** RMB'000 *(note 12)*	**Retained profits** RMB'000	**Proposed final dividend** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
At 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 new H shares upon listing	27(b)	30,000	18,043	–	–	–	48,043	–	48,043
Capital contributions from minority shareholders		–	–	–	–	–	–	9,000	9,000
Acquisition of a subsidiary	34	–	–	–	–	–	–	1,577	1,577
Transfer to capital reserves		–	4,722µ	–	(4,722)	–	–	–	–
Transfer to statutory reserves	12	–	–	2,893	(2,893)	–	–	–	–
Final 2005 dividend declared		–	–	–	–	(10,002)	(10,002)	–	(10,002)
Dividend declared to a minority shareholder		–	–	–	–	–	–	(2,900)	(2,900)
Proposed final 2006 dividend	13	–	–	–	(10,002)	10,002	–	–	–
At 31 December 2006 and 1 January 2007		100,018	30,309†	20,179†	10,344†	10,002	170,852	18,872	189,724
Total income and expense for the year recognised directly in equity – Over-accrual of share issue expenses in 2006	28(b)	–	248	–	–	–	248	–	248
Profit for the year		–	–	–	19,929	–	19,929	2,069	21,998
Total income and expense for the year		–	248	–	19,929	–	20,177	2,069	22,246
Capital contributions from minority shareholders		–	–	–	–	–	–	450	450
Acquisition of a subsidiary	34	–	–	–	–	–	–	574	574
Transfer to statutory reserves	12	–	–	2,352	(2,352)	–	–	–	–
Final 2006 dividend declared		–	–	–	–	(10,002)	(10,002)	–	(10,002)
Proposed final 2007 dividend	13	–	–	–	(10,002)	10,002	–	–	–
At 31 December 2007		**100,018**	**30,557†**	**22,531†**	**17,919†**	**10,002**	**181,027**	**21,965**	**202,992**

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

† These reserve accounts comprise the consolidated reserves of RMB60,832,000 and RMB71,007,000 in the consolidated balance sheet as at 31 December 2006 and 2007, respectively.

µ The amount transferred to capital reserves from retained profits during the year ended 31 December 2006 represent the government grants received in that year which are non-distributable in accordance with the accounting and financial regulations of the PRC.

	Notes	**2007 RMB'000**	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**29,124**	27,730
Adjustments for:			
Bank interest income	5	**(1,641)**	(1,064)
Imputed interest income on interest-free trade receivables with extended credit periods	5	**(180)**	–
Finance costs	7	**6,022**	3,754
Share of loss of a jointly-controlled entity	20	**632**	–
Depreciation	6	**10,784**	8,411
Amortisation of prepaid land premiums	6	**56**	128
Amortisation of other intangible assets	6	**900**	383
Loss on disposal of items of property, plant and equipment, net	6	**42**	238
Reversal of impairment of items of property, plant and equipment	6	**–**	(677)
Provision for slow-moving inventories and inventory loss, net	6	**596**	36
Impairment of trade and bills receivables, net	6	**1,396**	217
Impairment/(reversal of impairment) of other receivables, net	6	**(358)**	33
		47,373	39,189
Increase in long-term deposits		**(1,751)**	–
Decrease/(increase) in inventories		**(4,113)**	1,310
Increase in trade and bills receivables		**(7,403)**	(5,647)
Decrease in prepayments, deposits and other receivables		**3,003**	685
Increase in trade payables		**5,009**	891
Decrease in other payables and accruals		**(2,979)**	(5,462)
Increase/(decrease) in other taxes payable		**(292)**	1,229
Increase/(decrease) in deferred income		**(3,339)**	8,320
Cash generated from operations		**35,508**	40,515
Mainland China income tax paid		**(6,685)**	(3,605)
Interest received		**1,641**	1,064
Net cash inflow from operating activities		**30,464**	37,974
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	15	**(18,836)**	(11,590)
Addition to prepaid land premiums	16	**(600)**	–
Purchases of other intangible assets	18	**(912)**	(12)
Proceeds from disposal of items of property, plant and equipment		**456**	36
Investment in a jointly-controlled entity	20	**(900)**	–
Decrease in a pledged bank balance	26	**3**	314
Acquisition of a subsidiary	34	**–**	(369)
Net cash outflow from investing activities		**(20,789)**	(11,621)

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27(b)	**–**	62,400
Share issue expenses	27(b)	**–**	(14,357)
Refund of over-accrual of share issue expenses	28(b)	**248**	–
Capital contributions from minority shareholders		**450**	9,000
New bank loan		**19,792**	105,000
Repayment of bank loan		**(20,000)**	(55,000)
Interest paid		**(6,022)**	(3,754)
Dividend paid		**(10,002)**	(10,002)
Dividend paid to a minority shareholder		**–**	(2,900)
Net cash inflow/(outflow) from financing activities		**(15,534)**	90,387
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(5,859)**	116,740
Cash and cash equivalents at beginning of year		**154,580**	37,840
CASH AND CASH EQUIVALENTS AT END OF YEAR		**148,721**	154,580
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**108,449**	151,330
Non-pledged time deposit with original maturity of less than three months when acquired	26	**5,800**	3,250
Cash equivalent	26	**34,472**	–
		148,721	154,580

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	**49,264**	47,690
Prepaid land premiums	16	**3,467**	3,548
Other intangible assets	18	**456**	–
Interests in subsidiaries	19	**59,292**	54,979
Interest in a jointly-controlled entity	20	**900**	–
Trade and bills receivables	23	**1,966**	1,530
Long-term deposits	21	**1,743**	–
Total non-current assets		**117,088**	107,747
Current assets:			
Prepaid land premiums	16	**75**	75
Inventories	22	**16,334**	12,059
Trade and bills receivables	23	**14,398**	12,610
Prepayment, deposits and other receivables	24	**4,155**	6,330
Pledged bank balance	26	**–**	3
Cash and cash equivalents	26	**114,487**	122,142
Total current assets		**149,449**	153,219
TOTAL ASSETS		**266,537**	260,966

31 December 2007

	Notes	**2007 RMB'000**	2006 RMB'000
EQUITY AND LIABILITIES			
Equity:			
Issued capital	27	**100,018**	100,018
Reserves	28(b)	**54,681**	47,972
Proposed final dividend	13	**10,002**	10,002
TOTAL EQUITY		**164,701**	157,992
Non-current liabilities:			
Bank borrowings	29	**40,000**	80,000
Deferred income	30	**2,167**	5,500
Total non-current liabilities		**42,167**	85,500
Current liabilities:			
Trade payables	31	**5,227**	590
Other payables and accruals	32	**10,404**	13,006
Taxes payable	33	**4,038**	3,878
Bank borrowings	29	**40,000**	–
Total current liabilities		**59,669**	17,474
TOTAL LIABILITIES		**101,836**	102,974
TOTAL EQUITY AND LIABILITIES		**266,537**	260,966

Wu Lebin
Director

Wang Lin
Director

1. CORPORATE INFORMATION

Biosino Bio-Technology and Science Incorporation (the "Company") is a limited liability company established 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.

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 pharmaceutical products.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. 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 a subsidiary during the year 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 Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
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*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 41(f) to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has no arrangement to grant equity instruments for goods or services received, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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 (Revised)	*Presentation of Financial Statements*[1]
HKFRS 8	*Operating Segments*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[4]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008

HKAS 1 (Revised) affects certain disclosures of the financial statements. Under the revised standard, the Profit and Loss Account is renamed as the "Income Statement", the Balance Sheet is renamed as the "Statement of Financial Position" and the Cash Flow Statement is renamed as the "Statement of Cash Flows". All income and expenses arising from transactions with non-owners (i.e., the non-owner movements of equity) are presented under the "Income Statement" and "Statement of Comprehensive Income", and the total carried to the "Statement of Changes in Equity", while the owner changes in equity are presented in the "Statement of Changes in Equity".

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefit* on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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 HKFRS 8 may result in new or amended disclosures and the adoption of HK(IFRIC)-Int 11 may result in a change in accounting policy, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 entity 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 *Financial Instruments: Recognition and Measurement*, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of a jointly-controlled entity are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in the jointly-controlled entity are treated as non-current assets and are stated at cost less any impairment losses.

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 acquisitions 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. The Group performs its annual impairment test of goodwill as at 31 December 2007.

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.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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, but 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.

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); or

(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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its 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 part 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 an estimated useful life of 10 years.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over an estimated useful life of 2 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 financial assets at fair value through profit or loss and loans and receivables, as appropriate. 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on the investment held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised when the shareholders' right to receive payment has been established.

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 less any allowance for impairment. 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.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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, amounts due to a shareholder and a related company, 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. The related interest expense is recognized within "Financial costs" in the income statement.

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

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

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 that are readily convertible into known amounts of cash, 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 a time deposit and assets similar in nature to cash, 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 and an interest in a joint venture, 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, carry forward 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 and an interest in a joint venture, 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. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 with the employees 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.

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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made judgements and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date. The major judgements and estimations that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Useful lives and residual values of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual values or useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in future periods.

Impairment of property, plant and equipment and intangible assets (other than goodwill)

The carrying amounts of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is calculated as the higher of its fair value less costs to sell and value in use, and such calculations involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Current tax and deferred tax

The Group is subject to income taxes in Mainland China. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations, and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are not recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses cannot be utilised. Where expectations are different from original estimates, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimates have been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Provision for impairment of trade and bills receivables

The Group's management determines the provision for impairment of trade and bills receivables. This estimate is based on the credit history of the customers and the current market condition. Provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where expectations are different from original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been made.

Provision for obsolete and slow-moving inventories

Management reviews the condition of inventories of the Group and makes provision for obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision for obsolete and slow-moving items. Management reassesses the estimation at each balance sheet date.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been made.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. 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. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and all of the Group's assets are located in Mainland China.

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

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

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

4. SEGMENT INFORMATION *(continued)*

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 2007 and 2006:

Year ended 31 December 2007

	In-vitro diagnostic reagent products RMB'000	Pharmaceutical products RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	113,456	61,216	–	174,672
Other income	1,250	2,554	–	3,804
Total	114,706	63,770	–	178,476
Segment results	18,226	6,395	–	24,621
Unallocated income and gain				11,157
Profit from operating activities				35,778
Finance costs				(6,022)
Share of loss of a jointly-controlled entity	(632)	–	–	(632)
Profit before tax				29,124
Tax				(7,126)
Profit for the year				21,998
Assets and liabilities:				
Segment assets	97,552	103,162	(1,031)	199,683
Interest in a jointly-controlled entity	268	–	–	268
				199,951
Unallocated assets				148,721
Total assets				348,672
Segment liabilities	21,197	31,973	(1,031)	52,139
Unallocated liabilities				93,541
Total liabilities				145,680
Other segment information:				
Depreciation	5,634	5,150	–	10,784
Amortisation of other intangible assets	610	290	–	900
Capital expenditure	7,917	10,919	–	18,836
Impairment of trade and bills receivables	946	450	–	1,396
Impairment/(reversal of impairment) of other receivables	(428)	70	–	(358)

4. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2006

	In-vitro diagnostic reagent products RMB'000	Pharmaceutical products 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
Unallocated income and gain				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
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
Reversal of impairment of property, plant and equipment	(677)	–	–	(677)
Amortisation of other intangible assets	90	293	–	383
Capital expenditure	9,999	1,591	–	11,590
Impairment/(reversal of impairment) of trade and bills receivables	(324)	541	–	217
Impairment of other receivables	5	28	–	33

5. REVENUE, OTHER INCOME AND GAIN

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 goods returned and trade discounts.

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

	2007 RMB'000	2006 RMB'000
Revenue		
Sale of in-vitro diagnostic reagent products	**113,456**	95,864
Sale of pharmaceutical products	**61,216**	51,942
	174,672	147,806
Other income		
Bank interest income	**1,641**	1,064
Imputed interest income on interest-free trade receivables with extended credit periods	**180**	–
Interest subsidies*	**5,010**	1,760
Other government grants**	**3,014**	3,859
Others	**790**	478
	10,635	7,161
Gain		
Gain on disposal of listed equity investments at fair value through profit or loss	**4,326**	–
Other income and gain	**14,961**	7,161

* Interest subsidies represented government assistance from a government body in Mainland China in respect of the interest expenses incurred by the Group on a bank borrowing.

** Various government grants have been received by the Group for setting up research and development activities. Government grants received which related to assets or for which related expenditure has not yet been undertaken are included in deferred income in the balance sheet and will be released to the income statement over the expected useful life of the relevant asset by equal annual instalments or when the related expenses have been incurred. There are no unfulfilled conditions or contingencies relating to these grants, except that they must be utilised for research and development activities of the Group.

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2007 RMB'000	2006 RMB'000
Cost of inventories sold		**61,047**	49,968
Depreciation	15	**10,784**	8,411
Amortisation of prepaid land premiums	16	**56**	128
Amortisation of other intangible assets*	18	**900**	383
Loss on disposal of items of property, plant and equipment, net		**42**	238
Minimum lease payment under operating leases in respect of land and buildings		**469**	649
Auditors' remuneration		**800**	600
Employee benefits expense (including directors' and supervisors' remuneration *(note 8)*):			
Wages and salaries		**34,870**	24,806
Retirement benefits scheme contributions		**2,578**	2,045
		37,448	26,851
Reversal of impairment of property, plant and equipment**	15	**–**	(677)
Provision for slow-moving inventory and inventories loss, net		**596**	36
Impairment of trade and bills receivables, net	23(a)	**1,396**	217
Impairment/(reversal of impairment) of other receivables, net		**(358)**	33
Foreign exchange differences, net		**743**	470

* The amortisation of other intangible assets during the year comprised amortisation of know-how and computer software of RMB444,000 (2006: RMB383,000) and RMB456,000 (2006: Nil), respectively, which are included in "Cost of sales" and "Administration expenses" on the face of the consolidated income statement, respectively.

** The reversal of impairment of items of property, plant and equipment for the year ended 31 December 2006 is included in "Other operating expenses, net" on the face of the consolidated income statement.

7. FINANCE COSTS

The Group's finance costs for the years ended 31 December 2007 and 2006 are interests on bank loans wholly repayable within five years.

8. 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	
	2007 RMB'000	2006 RMB'000
Fees	**275**	203
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**2,560**	2,045
Retirement benefits scheme contributions	**22**	11
	2,582	2,056
	2,857	2,259

(a) Independent non-executive directors

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

	2007 RMB'000	2006 RMB'000
Dr. Cheng Jing	**49**	–
Dr. Hua Sheng	**50**	42
Mr. Chan Yiu Kwong	**49**	42
Prof. Yang Zhenhua	**–**	42
	148	126

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

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

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

2007

	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	–	1,752	8	1,760
Dr. Wang Lin	–	309	7	316
Mr. Hou Quanmin	–	371	–	371
Mr. Zhu Yigui	–	–	–	–
Non-executive directors:				
Dr. Rao Zihe	–	–	–	–
Mr. Zhang Yong	1	–	–	1
Dr. Gao Guang Xia	11	–	–	11
Ms. Li Chang	22	–	–	22
Mr. Rong Yang	22	–	–	22
Mr. Wang Fu Gen	11	–	–	11
Ms. Yu Xiaomin	15	–	–	15
Dr. He Rongqiao	–	–	–	–
Supervisors:				
Dr. He Rongqiao	27	–	–	27
Mr. Wang Xin	13	–	–	13
Mr. Shao Yimin	–	128	7	135
Dr. Yan Xiyun	5	–	–	5
	127	2,560	22	2,709

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

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

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
Ms. Li Chang	11	–	–	11
Mr. Rong Yang	14	–	–	14
Mr. Wang Fu Gen	3	–	–	3
Ms. Yu Xiaomin	7	–	–	7
Dr. He Rongqiao	7	–	–	7
Supervisors:				
Mr. Wang Xin	7	–	–	7
Mr. Shao Yimin	–	116	4	120
Dr. Yan Xiyun	6	–	–	6
	77	2,045	11	2,133

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2006: two) directors/supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2006: three) non-director/supervisor, highest paid employees for the year are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,125**	1,518
Retirement benefits scheme contributions	**25**	19
	1,150	1,537

The remuneration of each of the three (2006: three) non-director/supervisor, highest paid employees during the year fell within the band of nil to RMB975,000 (2006: nil to RMB1,026,000) (equivalent to nil to HK$1,000,000).

10. TAX

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries have not generated any assessable profits in Hong Kong during the year (2006: Nil). Taxes on profits assessable in Mainland China, where the Group operates, have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof. According to the relevant PRC income tax law, the Company and certain of its subsidiaries, being registered as new and high technology enterprises in Beijing, are entitled to concessionary income tax rates of 15% or 7.5%, where appropriate, which have been applied for both years.

	Group	
	2007	2006
	RMB'000	RMB'000
Current – Mainland, the PRC	**7,145**	6,083
Underprovision/(overprovision) in prior years	**(19)**	584
Total tax charge for the year	**7,126**	6,667

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory concession rate of 15% granted to the Company to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory concession tax rate) to the effective tax rate, are as follows:

	Group			
	2007 RMB'000	**%**	2006 RMB'000	%
Profit before tax	**29,124**		27,730	
Tax at the applicable income tax rate of 15%	**4,369**	**15.0**	4,160	15.0
Lower tax rate for specific entity	**(207)**	**(0.7)**	–	–
Adjustments in respect of current tax of previous year	**(19)**	**–**	584	2.1
Loss attributable to a jointly-controlled entity	**95**	**0.3**	–	–
Additional tax concession for research and development expenses	**(1,012)**	**(3.5)**	(817)	(3.0)
Income not subject to tax	**(810)**	**(2.8)**	(197)	(0.7)
Expenses not deductible for tax	**4,123**	**14.2**	2,882	10.4
Tax losses not recognised	**587**	**2.0**	55	0.2
Tax charge at the Group's effective rate	**7,126**	**24.5**	6,667	24.0

There was no material unprovided deferred tax liabilities in respect of the year and at the balance sheet date (2006: Nil).

Deferred tax assets have not been recognised in respect of the following items during the year and at the balance sheet date:

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Tax losses	**290**	42	**–**	–
Deductible temporary differences	**346**	326	**322**	306
	636	368	**322**	306

The above tax losses are available for 5 years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2007 includes a profit of RMB16,463,000 (2006: RMB28,740,000) which has been dealt with in the financial statements of the Company *(note 28(b))*.

12. 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 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 their respective registered capitals. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages.

The above reserve cannot be used for purposes other than those for which it is created and is 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 dividend payment is based on the lesser of (i) the profit determined in accordance with accounting principles generally accepted in Mainland China; and (ii) the profit determined in accordance with the HKFRSs.

13. DIVIDEND

	2007 **RMB'000**	2006 RMB'000
Proposed final dividend – RMB0.10 (2006: 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.

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company and the weighted average of 100,017,528 (2006: 100,017,528) ordinary shares in issue during the year.

No diluted earnings per share amounts have been presented as no diluting events existed during the year (2006: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	Buildings and other structures RMB'000 *(note)*	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
2007								
At 31 December 2006 and at 1 January 2007:								
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
Net carrying amount:								
At 1 January 2007		58,910	1,252	43,124	3,410	2,285	2,285	111,266
Acquisition of a subsidiary	34	–	–	170	8	–	–	178
Additions		4,635	781	6,743	2,417	901	3,359	18,836
Transfer from CIP		1,407	–	121	125	–	(1,653)	–
Depreciation provided during the year		(2,418)	(618)	(5,716)	(1,159)	(873)	–	(10,784)
Disposals		(454)	–	(18)	(26)	–	–	(498)
At 31 December 2007		62,080	1,415	44,424	4,775	2,313	3,991	118,998
At 31 December 2007:								
Cost		66,606	2,547	59,680	8,234	5,752	3,991	146,810
Accumulated depreciation		(4,526)	(1,132)	(15,256)	(3,459)	(3,439)	–	(27,812)
Net carrying amount		62,080	1,415	44,424	4,775	2,313	3,991	118,998

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

Group *(continued)*

	Notes	Buildings and other structures RMB'000 *(note)*	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
2006								
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
Net carrying amount:								
At 1 January 2006		31,613	307	10,879	1,773	2,461	60,294	107,327
Acquisition of a subsidiary	34	–	–	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	16	(26)	–	–	–	–	–	(26)
Depreciation provided during the year		(1,663)	(514)	(4,591)	(914)	(729)	–	(8,411)
Reversal of impairment		–	–	491	186	–	–	677
Disposals		–	–	(249)	(25)	–	–	(274)
Reclassification		(11,588)	–	11,588	–	–	–	–
At 31 December 2006		58,910	1,252	43,124	3,410	2,285	2,285	111,266

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

Company

	Buildings RMB'000 *(note)*	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
2007							
At 31 December 2006 and at 1 January 2007:							
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
Net carrying amount:							
At 1 January 2007	19,478	210	22,045	2,098	1,574	2,285	47,690
Additions	–	–	2,780	585	324	3,154	6,843
Transfer from CIP	1,407	–	121	125	–	(1,653)	–
Depreciation provided during the year	(638)	(61)	(3,426)	(613)	(508)	–	(5,246)
Disposals	–	–	(18)	(5)	–	–	(23)
At 31 December 2007	20,247	149	21,502	2,190	1,390	3,786	49,264
At 31 December 2007:							
Cost	21,850	307	32,010	4,343	3,571	3,786	65,867
Accumulated depreciation	(1,603)	(158)	(10,508)	(2,153)	(2,181)	–	(16,603)
Net carrying amount	20,247	149	21,502	2,190	1,390	3,786	49,264

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

Company *(continued)*

	Note	Buildings RMB'000 (note)	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
2006								
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
Net carrying amount:								
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	16	(26)	–	–	–	–	–	(26)
Depreciation provided during the year		(521)	(97)	(3,183)	(653)	(422)	–	(4,876)
Reversal of impairment		–	–	491	186	–	–	677
Disposals		–	–	(127)	(19)	–	–	(146)
Reclassification		(11,588)	–	11,588	–	–	–	–
At 31 December 2006		19,478	210	22,045	2,098	1,574	2,285	47,690

Note: Certain buildings of the Group and the Company with aggregate net carrying amounts of RMB51,444,000 (2006: RMB58,918,000) and RMB20,247,000 (2006: RMB19,478,000) were pledged to secure certain bank borrowings granted to the Group and the Company as at 31 December 2007 *(note 29)*.

16. PREPAID LAND PREMIUMS

		Group		Company	
	Note	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Carrying amount at 1 January		**7,103**	7,205	**3,623**	3,677
Transfer from buildings	15	**–**	26	**–**	26
Addition		**600**	–	**–**	–
Amortisation provided during the year		**(56)**	(128)	**(81)**	(80)
Carrying amount at 31 December		**7,647**	7,103	**3,542**	3,623
Portion classified as current assets		**(177)**	(146)	**(75)**	(75)
Non-current portion		**7,470**	6,957	**3,467**	3,548

Notes:

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

(b) Certain of the Group's interests in land use rights with an aggregate carrying amount of RMB7,047,000 (2006: RMB7,103,000) and the Company's interests in land use rights were pledged to secure bank borrowings granted to the Group and the Company as at 31 December 2007 *(note 29)*.

17. GOODWILL

	Group	
	2007 RMB'000	2006 RMB'000
Cost and carrying amount at 1 January	**309**	–
Acquisition of a subsidiary *(note 34)*	**161**	309
Cost and carrying amount at 31 December	**470**	309

18. OTHER INTANGIBLE ASSETS

Group

	Know-how RMB'000	Computer software RMB'000	Total RMB'000
2007			
At 31 December 2006 and 1 January 2007:			
Cost	**3,733**	**–**	**3,733**
Accumulated amortisation	**(1,495)**	**–**	**(1,495)**
Net carrying amount	**2,238**	**–**	**2,238**
Net carrying amount:			
At 1 January 2007	**2,238**	**–**	**2,238**
Acquisition of a subsidiary *(note 34)*	**200**	**–**	**200**
Additions	**–**	**912**	**912**
Amortisation provided during the year	**(444)**	**(456)**	**(900)**
At 31 December 2007	**1,994**	**456**	**2,450**
At 31 December 2007:			
Cost	**4,284**	**912**	**5,196**
Accumulated amortisation	**(2,290)**	**(456)**	**(2,746)**
Net carrying amount	**1,994**	**456**	**2,450**
2006			
At 1 January 2006:			
Cost	2,899	–	2,899
Accumulated amortisation	(1,112)	–	(1,112)
Net carrying amount	1,787	–	1,787
Net carrying amount:			
At 1 January 2006	1,787	–	1,787
Acquisition of a subsidiary *(note 34)*	822	–	822
Additions	12	–	12
Amortisation provided during the year	(383)	–	(383)
At 31 December 2006	2,238	–	2,238
At 31 December 2006:			
Cost	3,733	–	3,733
Accumulated amortisation	(1,495)	–	(1,495)
Net carrying amount	2,238	–	2,238

18. OTHER INTANGIBLE ASSETS *(continued)*

Company

	Computer software RMB'000
2007	
At 31 December 2006 and 1 January 2007:	
Cost	–
Accumulated amortisation	–
Net carrying amount	–
Net carrying amount:	
At 1 January 2007	–
Additions	912
Amortisation provided during the year	(456)
At 31 December 2007	456
At 31 December 2007:	
Cost	912
Accumulated amortisation	(456)
Net carrying amount	456
2006	
At 1 January 2006:	
Cost	–
Accumulated amortisation	–
Net carrying amount	–
Net carrying amount:	
At 1 January 2006 and 31 December 2006	–

19. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	RMB'000	RMB'000
Unlisted equity investments in Mainland China, at cost	**58,833**	54,433
Due from a subsidiary	**583**	583
Due to a subsidiary	**(124)**	(37)
	59,292	54,979

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

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
北京百奧藥業有限責任公司 (Beijing Baiao Pharmaceuticals Company Limited) ("Baiao Pharmaceuticals")	PRC/ Mainland China	RMB55 million	80%	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%	51%	Manufacture, sale and distribution of in-vitro diagnostic reagent products
北京百川飛虹生物科技有限公司 (Beijing BioTrand Bio-technology Incorporation) ("BioTrand")	PRC/ Mainland China	RMB10 million	50%	90%	Technology research
北京中生可利檢驗醫學技術有限責任公司 (Beijing Biosino Lab Tech. Inc.)	PRC/ Mainland China	RMB6.8 million	55.88%	55.88%	Medical science research
北京中生朗捷生物技術有限公司 (Beijing Biosino Agi-Accu Bio-Technology Co., Ltd) ("Agi-Accu")*	PRC/ Mainland China	RMB1.6 million	56.25%	56.25%	Research, development, manufacture and distribution of biological reagents

19. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
綿陽高新區中科生物工程有限公司 (Mian Yang Hi-tech Industrial Park ZhongKe Bioengineering Co., Ltd) ("ZhongKe")*	PRC/ Mainland China	RMB7.3 million RMB10.5 million	33.34%	63.34%	Development, manufacture and distribution of enzyme and biological products
綿陽高新區科力生物醫藥有限公司 (Mian Yang Hi-tech Industrial Park KeLi Biomedicine Co,. Ltd) ("KeLi")*	PRC/ Mainland China	RMB0.5 million	–	44.34% †	Development, manufacture and distribution of enzyme and biological products

* Acquired/incorporated during the year

† This entity is accounted for as a subsidiary by virtue of the Company's control over it

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Unlisted equity investment at cost	**–**	–	**900**	–
Share of net assets	**268**	–	**–**	–
	268	–	**900**	–

Particulars of the jointly-controlled entity, which was incorporated during the year and is directly held by the Company, are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
北京中生科維醫療科技有限公司 (Beijing ZhongSheng KeWei Medical Technology Co,. Ltd) ("KeWei")	PRC/ Mainland China	RMB2 million	45	33	45	Development, manufacture and distribution of clinical instruments

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY *(continued)*

The following tables illustrate the summarised financial information of the Group's jointly-controlled entity:

	2007 RMB'000	2006 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Non-current assets	**113**	–
Current assets	**181**	–
Current liabilities	**(26)**	–
Net assets	**268**	–
Share of the jointly-controlled entity's results:		
Total revenue	**–**	–
Total expenses	**(632)**	–
Loss before tax	**(632)**	–
Tax	**–**	–
Loss after tax	**(632)**	–

21. LONG-TERM DEPOSITS

Long-term deposits as at 31 December 2007 are deposits paid for the purchases of plant and machinery for the Group's and the Company's operations.

22. INVENTORIES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Raw materials	**8,661**	7,130	**6,445**	4,596
Work in progress	**1,623**	1,238	**322**	115
Semi-finished goods	**2,459**	3,614	**1,119**	756
Finished goods	**10,704**	8,626	**8,448**	6,592
Finished goods on consignment	**1,302**	591	**–**	–
	24,749	21,199	**16,334**	12,059

The net amount of provision for slow-moving inventories and inventory loss recognised in the consolidated income statement during the year is set out in note 6 to the financial statements.

23. TRADE AND BILLS RECEIVABLES

Except for certain established customers of the Company being granted with payment terms ranging from 2 to 4 years in respect of several instalment sales, the credit periods of the Group granted to its customers generally range from 60 to 90 days. The Group closely monitors overdue balances, and impairment is made when it is considered that the 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 and bills receivables are interest-free.

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Within 3 months	**25,917**	22,778	**11,431**	10,829
4 to 6 months	**4,938**	2,361	**1,963**	95
7 to 12 months	**5,854**	1,749	**3,920**	654
1 to 2 years	**1,016**	3,084	**28**	2,239
Over 2 years	**1,506**	1,674	**571**	926
	39,231	31,646	**17,913**	14,743
Less: Impairment *(note (a))*	**(3,549)**	(2,153)	**(1,549)**	(603)
	35,682	29,493	**16,364**	14,140
Portion classified as current assets	**(33,716)**	(27,963)	**(14,398)**	(12,610)
Non-current portion	**1,966**	1,530	**1,966**	1,530

Notes:

(a) The movements in provision for impairment of trade and bills receivables of the Group and the Company are as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
At 1 January	**2,153**	1,936	**603**	927
Impairment losses recognised *(note 6)*	**1,396**	541	**946**	–
Impairment losses reversed *(note 6)*	**–**	(324)	**–**	(324)
At 31 December	**3,549**	2,153	**1,549**	603

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB3,405,000 (2006: RMB2,151,000) with an aggregate carrying amount of RMB3,664,000 (2006: RMB2,151,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

23. TRADE AND BILLS RECEIVABLES *(continued)*

Notes: (continued)

(b) An aged analysis of the trade and bills receivables of the Group and the Company that are not considered to be impaired is as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Neither past due nor impaired	**34,131**	28,699	**14,879**	13,531
Less than 1 month past due	**1,103**	519	**1,092**	417
1 to 3 months past due	**448**	275	**393**	192
	35,682	29,493	**16,364**	14,140

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
	Note	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Advance to suppliers		**1,464**	2,630	**–**	1,315
Prepayments		**94**	201	**–**	129
Deposits and other debtors		**6,147**	7,341	**4,155**	4,886
Due from a shareholder	25	**76**	409	**–**	–
Due from a related company	25	**155**	–	**–**	–
		7,936	10,581	**4,155**	6,330

Notes:

(a) Included in the Group's and the Company's other debtors as at 31 December 2007 were cash advances of RMB1,500,000 (2006: RMB2,000,000) in aggregate made to established customers of the Company in connection with the purchase of certain bio-chemical instruments for the development of in-vitro diagnostic reagent products by the customers. The cash advances are interest-free and fully repayable within one year from the date of grant of advances, and/or are guaranteed by the legal representative and the shareholders of these customers.

(b) Included in the Group's and the Company's other debtors as at 31 December 2007 was an interest subsidy receivable from a government body in Mainland China of RMB1,837,000 (2006: RMB1,760,000) in respect of the interest expenses incurred by the Group on a bank borrowing.

25. DUE FROM/TO A SHAREHOLDER AND A RELATED COMPANY

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

Included in the amount due to a shareholder as at 31 December 2007 is the accrued technical service fees of RMB1,000,000 for the two years ended 31 December 2007 payable to the Institute of Biophysics of the Chinese Academy of Sciences (the "IBP") for the rights to use the technical know-how. Further details of the technical service fee arrangements are set out in note 38(c) to the financial statements.

26. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCE

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**108,449**	151,333	**80,015**	118,895
Time deposit	**5,800**	3,250	**–**	3,250
Cash equivalent	**34,472**	–	**34,472**	–
Less: Bank balance pledged for letter of credit facilities	**–**	(3)	**–**	(3)
Cash and cash equivalents	**148,721**	154,580	**114,487**	122,142

Notes:

(a) Cash at banks earns interest at floating rates based on daily bank deposit rates. A short-term time deposit is made for a period within three months and earns interest at the short-term time deposit rate. The bank balances and pledged deposit are deposited with creditworthy banks with no recent history of default.

(b) The cash equivalent of the Group and the Company as at 31 December 2007 represented funds deposited in a security trading house established in Mainland China. The deposit is not restricted as to use. In the opinion of the directors, the credit risk in respect of the deposit in the security trading house is low.

(c) The carrying amounts of the cash and cash equivalents and the pledged deposit approximate to their fair values

27. SHARE CAPITAL

	2007 RMB'000	2006 RMB'000
Registered, issued and fully paid:		
67,017,528 domestic shares of RMB1 each	**67,018**	67,018
33,000,000 H shares of RMB1 each	**33,000**	33,000
	100,018	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 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 approximately RMB1,350,000, the remaining balance of approximately RMB4,890,000 was payable to the Social Security Fund, of which RMB100,000 was repaid in the year ended 31 December 2006 and the remaining balance of RMB4,790,000 was fully settled during the year.

(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 approximately RMB14,357,000, the Company raised net proceeds of approximately RMB48,043,000, of which the paid-up share capital amounted to RMB30,000,000 and the capital reserves amounted to approximately RMB18,043,000.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 44 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 2006		70	13,443	(2,322)	11,191
Profit for the year and total income and expense for the year		–	–	28,740	28,740
Issue of new H shares upon listing	27(b)	18,043	–	–	18,043
Transfer to statutory reserves	12	–	2,632	(2,632)	–
Proposed final 2006 dividend	13	–	–	(10,002)	(10,002)
At 31 December 2006 and 1 January 2007		18,113	16,075	13,784	47,972
Total income and expense for the year recognised directly in equity – Over-accrual of share issue expenses in 2006		248	–	–	248
Profit for the year		–	–	16,463	16,463
Total income and expense for the year		248	–	16,463	16,711
Transfer to statutory reserves	12	–	1,659	(1,659)	–
Proposed final 2007 dividend	13	–	–	(10,002)	(10,002)
At 31 December 2007		18,361	17,734	18,586	54,681

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

29. BANK BORROWINGS

Group	Notes	2007 Effective interest rate (%)	2007 Maturity	2007 RMB'000	2006 Effective interest rate (%)	2006 Maturity	2006 RMB'000
Current							
Bank loans – secured	(a) and (b)	**6.49**	**2008**	**49,792**	5.58	2007	10,000
Non-current							
Bank loan – secured	(b)	**6.11**	**2009**	**40,000**	6.00	2008-2009	80,000
				89,792			90,000

Company	Note	2007 Effective interest rate (%)	2007 Maturity	2007 RMB'000	2006 Effective interest rate (%)	2006 Maturity	2006 RMB'000
Current							
Bank loan – secured	(b)	**6.11**	**2008**	**40,000**	–	–	–
Non-current							
Bank loan – secured	(b)	**6.11**	**2009**	**40,000**	6.00	2008-2009	80,000
				80,000			80,000

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Bank loans repayable:				
Within one year	**49,792**	10,000	**40,000**	–
In the second year	**40,000**	40,000	**40,000**	40,000
In the third to fifth years, inclusive	**–**	40,000	**–**	40,000
	89,792	90,000	**80,000**	80,000

29. BANK BORROWINGS *(continued)*

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 erected thereon with an aggregate carrying value of approximately RMB31,289,000 (2006: RMB32,553,000) at the balance sheet date, were pledged to the Guarantor (notes 15 and 16).

(b) a pledge of the Company's land use right in Mainland China and the building erected thereon with an aggregate carrying value of approximately RMB23,789,000 (2006: RMB23,101,000) at the balance sheet date (notes 15 and 16).

Bank borrowings are denominated in Renminbi, and bear interest at fixed rate, except for a bank loan of RMB80 million which bears interest at floating rate. The carrying amounts of these loans approximate to their fair values.

30. DEFERRED INCOME

Various government grants have been received by the Group and the Company for setting up research and development activities. Government grants received which related to assets or for which related expenditure has not yet been undertaken are included in deferred income in the balance sheet and will be released to the income statement over the expected useful life of the relevant asset by equal annual instalments or when the related expenses have been incurred. There are no unfulfilled conditions or contingencies relating to these grants, except that they must be utilise have been for research and development activities.

A summary of the government grants included in the deferred income at the balance sheet date is as follows:

		Group		Company	
Government authority	**Project name**	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
中國人民共和國財政部	863診斷試關鍵原料	**765**	2,500	**–**	2,500
中國人民共和國財政部	863生化診斷試劑	**2,116**	3,000	**1,897**	3,000
中國人民共和國財政部	863診斷試劑和標準物質參考品	**270**	–	**270**	–
北京市海澱區財政局	蛋白質多膠藥物化支撐平台項目	**3,315**	5,000	**–**	–
北京市工業促進局	蛋白質藥物產業化項目	**2,000**	2,000	**–**	–
中關村科技園管理委員會	尿半乳糖測試定試劑盒	**252**	320	**–**	–
北京科學技術委員會	抗巨噬細胞遷移抑制因子	**463**	–	**–**	–
科技部中小企技術創新基金管理中心	診斷試劑用甘油脱氫酶	**300**	–	**–**	–
		9,481	12,820	**2,167**	5,500

31. TRADE PAYABLES

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Within 3 months	**6,767**	1,744	**5,153**	573
4 to 6 months	**–**	322	**–**	–
7 to 12 months	**353**	73	**–**	2
1 to 2 years	**179**	114	**58**	–
Over 2 years	**65**	102	**16**	15
	7,364	2,355	**5,227**	590

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

32. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Accruals		**8,041**	7,631	**6,844**	2,673
Other liabilities	(a) and (b)	**23,307**	27,704	**2,560**	9,802
Due to a shareholder	25	**1,239**	531	**1,000**	531
Due to a related company	25	**300**	–	**–**	–
		32,887	35,866	**10,404**	13,006
Portion classified as current liabilities		**(31,087)**	(35,866)	**(10,404)**	(13,006)
Non-current portion	(a)	**1,800**	–	**–**	–

32. OTHER PAYABLES AND ACCRUALS *(continued)*

Notes:

(a) Included in the Group's other liabilities as at 31 December 2007 and 2006 are amounts relating to government assistance of RMB3.8 million and RMB3 million received from the National Development and Reform Commission (國家發展和改革委員會, the "NDRC") and Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會, the "BMCDR"), respectively. The amounts were granted to Baiao Pharmaceuticals for the construction of a production base at the Changping District, Beijing, the PRC, with the specified obligations that they are to be utilised only for the construction of the production base and that the Group has to report the progress of the construction project and the use of funds on a timely basis. Upon the completion of the construction project and the fulfilment of the specified obligations, either Baiao Pharmaceuticals is required to repay the funds to the government or the funds would be converted into capital of Baiao Pharmaceuticals. In the opinion of the directors, the funds will be repaid by Baiao Pharmaceuticals to relevant Government bodies upon the completion of the construction project and the directors consider that the chance of the funds being converted into capital of Baiao Pharmaceuticals is remote. During the prior year, the terms of repayment had not yet been agreed between the parties and as such, the whole balance of RMB6.8 million was classified as a current liability as at 31 December 2006.

During the year ended 31 December 2007, Baiao Pharmaceuticals entered into an agreement with China High and New Investment Corporation (中國高新投資集團公司), a capital contributor appointed by the NDRC, pursuant to which the assistance of RMB3.8 million granted will be settled in two instalments with the first and second instalments of RMB2 million and RMB1.8 million being repayable in 2008 and 2009, respectively. The second instalment of RMB1.8 million, which is repayable in 2009, is classified as a non-current liability as at 31 December 2007.

As at 31 December 2007 and the date of approval of these financial statements, no agreement has been signed between the BMCDR and the Group as to the terms of repayment in respect of the RMB3 million assistance granted by the BMCDR. Accordingly, the whole balance is classified as a current liability as at 31 December 2007.

(b) Included in the Group's other liabilities as at 31 December 2007 are costs of RMB6,396,000 (2006: RMB9,619,000) incurred for the construction of office and factory premises of the Group at Changping District, Beijing, the PRC, which remained unpaid as at the balance sheet date. The Group's other liabilities as at 31 December 2006 also included the net proceeds of RMB4,790,000 repayable to the Social Security Fund in Mainland China arising from the sale of domestic shares which was fully settled during the year.

33. TAXES PAYABLE

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
PRC corporate income tax payable	**3,749**	3,308	**2,509**	2,252
Value-added tax payable	**2,044**	2,380	**1,325**	1,433
Others	**363**	319	**204**	193
	6,156	6,007	**4,038**	3,878

34. BUSINESS COMBINATION

The fair values of the identifiable assets and liabilities of the subsidiary acquired at the date of acquisition, and which were not significantly, different from their respective carrying amounts at that date, are as follows:

	Notes	2007 RMB'000 (note (a))	2006 RMB'000 (note (b))
Net assets acquired:			
Property, plant and equipment	15	**178**	383
Know-how	18	**200**	822
Inventories		**33**	839
Trade receivables		**2**	539
Prepayments, deposits and other receivables		**–**	949
Cash and bank balances		**900**	581
Trade payables		**–**	(506)
Taxes payable		**–**	(121)
Other payables and accruals		**–**	(268)
Minority interests		**(574)**	(1,577)
Net assets		**739**	1,641
Goodwill arising on acquisition	17	**161**	309
		900	1,950
Satisfied by cash		**900**	1,950

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

	2007 RMB'000	2006 RMB'000
Cash consideration	**(900)**	(1,950)
Cash and bank balances acquired	**900**	581
Investment deposits paid during year ended 31 December, 2005	**–**	1,000
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**–**	(369)

Notes:

(a) On 9 January 2007, the Group acquired a 56.25% equity interest in Agi-Accu through injection of capital of RMB900,000 in cash to Agi-Accu. Agi-Accu is engaged in the research, development, manufacture and distribution of biological reagents.

Since its acquisition, Agi-Accu contributed RMB57,000 to the Group's turnover and had a loss of RMB771,000 included in the Group's consolidated profit for the year 31 December 2007.

34. BUSINESS COMBINATION *(continued)*

Notes: *(continued)*

(b) On 29 March 2006, the Group acquired a 51% equity interest in Zhongshen 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 RBM1,000,000 paid during the year ended 31 December 2005 as an investment deposit and the remaining RMB950,000 paid on 3 March 2006.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 31 December 2007 would have been RMB174,672,000 (2006: RMB153,561,000) and RMB21,998,000 (2006: RMB21,264,000) respectively.

35. CONTINGENT LIABILITIES

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

As at 31 December 2007, the Company has a contingent liability in respect of the guarantee given to China High and New Investment Corporation for an amount of RMB4 million (2006: Nil) due from Baiao Pharmaceuticals. Details of which are set out in note 32(a).

36. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 29 to the financial statements.

37. 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 1 to 2 years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Within one year	**982**	309
In the second to fifth years, inclusive	**883**	199
	1,865	508

The Company did not have any operating lease commitments as at 31 December 2007 (2006: Nil).

38. COMMITMENTS

(a) In addition to the operating lease commitments as detailed in note 37 above, the Group and the Company had the following capital commitments in respect of plant and machinery at the balance sheet date:

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Authorised, but not contracted for	**592**	–
Contracted, but not provided for	**3,073**	–
	3,665	–

(b) Pursuant to a research and development co-operation agreement (the "Research and Development Co-operation 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 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 will have to complete the co-development of the pre-clinical research according to the Research and Development Co-operation Agreement. The assessed market value of the clinical research rights is subject to a cap of RMB5,000,000. Therefore, the maximum amount of consideration that the Group would pay to the IBP to acquire the clinical research rights will be RMB2,500,000.

(c) 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 had 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 2007, the technical service fees for the two years ended 31 December 2007 in an aggregate amount of RMB1,000,000 have not yet been paid to the IBP and were accounted for as an amount due to a shareholder *(notes 25 and 32)* in the balance sheet as at 31 December 2007.

39. RELATED PARTY DISCLOSURES

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

	Notes	Group 2007 RMB'000	2006 RMB'000
Rental paid by Zhongsheng Jinyu in respect of operating lease arrangements of office properties	(i)	**184**	–
Rental paid by Baiao Pharmaceuticals in respect of operating lease arrangements of office properties, factory premises and warehouses	(ii)	**–**	266
Rental paid by BioTrand in respect of operating lease arrangements of office properties	(ii)	**86**	–
Water and electricity fees paid by Baiao Pharmaceuticals	(iii)	**–**	140
Technical service fee paid	(iv)	**500**	500
Sale of medical equipment to the IBP	(v)	**–**	385
Research and development service fee paid to the IBP	(vi)	**300**	–
Purchase of medical instruments from the IBP	(vii)	**791**	–

Notes:

(i) The office premise of a subsidiary of the Group was leased from Beijing Enterprises Holdings Hign-Tech Development Co., Ltd. ("BEHT"), a shareholder of the Company. The rental was paid based on a mutually-agreed amount each year. In the opinion of the directors, the rental was determined by reference to the then prevailing open market rentals.

(ii) The Group's premises at Haidian District, 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 own office building and production facility at Changping. Thus the lease contract with the IBP was terminated.

In addition, the office premise of BioTrand, another subsidiary, of the Group was leased from the IBP. The rentals were paid based on a mutually-agreed amount each year.

(iii) 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 was terminated.

39. RELATED PARTY DISCLOSURES *(continued)*

(a) *(continued)*

Notes: (continued)

(iv) Details of the technical service fee paid are set out in note 38(c) to the financial statements.

(v) On 8 December 2006, the Company entered into a sales agreement with the IBP under which the Company sold certain medical equipment to the IBP. The prices of the equipment were set on mutually agreed amounts. As at 31 December 2006, the equipment had been delivered and the consideration had been settled.

(vi) On 31 January 2007, the Group and the IBP entered into a supplement any agreement of the "Research and Development Co-operation Agreement", details of which are set out in note 38(b) to the financial statements. Pursuant to this supplementary agreement, the IBP will carry out a research and development subphase of the project Alprostadil for Injection, while the Group agreed to pay RMB400,000 to the IBP. During the year, RMB300,000 was paid while the remaining portion will be paid upon the completion of the research and development subphase. The research and development subphase had not been completed as at 31 December 2007.

(vii) In 2007, the Group entered into various purchase agreements with the IBP under which the Group purchased certain medical equipment from the IBP. The prices of the equipment were set on mutually agreed amounts. As at 31 December 2007, all equipment had been delivered and put into use.

(b) Mr. Gao Guang Xia, a non-executive director of the Company, entered into an agreement with ZhongKe to form a joint venture named KeLi to engage in the development, manufacture and distribution of enzyme and biological products. KeLi was subsequently established in Mainland China as a limited liability Company with a registered capital of RMB500,000 and is owned as to 30% and 70% by Mr. Gao Guang Xia and ZhongKe, respectively. Mr. Gao Guang Xia subsequently transferred all his interest in KeLi to a third party on 6 December 2007.

(c) The amounts due from/to a shareholder and a related company are set out in note 25 to the financial statements.

(d) Compensation of key management personnel of the Group

	2007 **RMB'000**	2006 RMB'000
Short-term employee benefits	**5,318**	5,444
Post-employment benefits	**64**	74
Total compensation paid to key management personnel	**5,382**	5,518

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

40. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2007 and 2006 are loans and receivables, and financial liabilities stated at amortised cost, respectively.

41. 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, foreign currency 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 in Mainland China.

(b) Interest rate risk

At 31 December 2007, the bank loans of the Group comprise both floating rate and fixed rate debts. Interest expenses are charged to the income statement as incurred. Despite the fact that the Group has a bank loan which bears interest at floating rate, in the opinion of the directors, the Group has no significant concentration of interest rate risk.

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

(c) Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB, except for the facts that the Company occasionally purchases equipment from overseas countries for resale in Mainland China and certain deposits denominated in Hong Kong dollar (HK$) are placed in Hong Kong for payments of miscellaneous expenses such as professional fees incurred in Hong Kong. Purchases and payments made in foreign currencies were 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.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's and the Company's equity due to changes in the fair value of bank balances denominated in HK$:

	Increase/ (decrease) in HK$ rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	RMB'000	RMB'000
2007			
If RMB weakens against HK$	5	195	195
If RMB strengthens against HK$	(5)	(195)	(195)
2006			
If RMB weakens against HK$	5	162	162
If RMB strengthens against HK$	(5)	(162)	(162)

(d) Credit risk

The Group's cash and bank balances are mainly deposits with state-owned banks in Mainland China. In respect of the Group's deposit of RMB34,472,000 placed in a security trading house in Mainland China, in the opinion of the directors, the credit risk is low.

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.

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

(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.

Financial liabilities of the Group and the Company included in current liabilities as at the balance sheet date either had no fixed terms of repayment or were due for repayment within one year. The maturity profile of the bank borrowings of the Group and the Company and the non-current portion of an other payable of the Group are set out in notes 29 and 32(a) to the financial statements, respectively.

(f) Capital management

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business. The Group recognises the impact on shareholder returns of the level of equity capital employed within the Group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

An annual Group capital plan is prepared and approved by the Board with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The Group manages its own capital within the context of the approved annual Group capital plan, which determines levels of risk-weighted asset growth and the optimal amount and mix of capital required to support planned business growth. As part of the Group's capital management policy, subsidiary with capital generated in excess of planned requirement will return to the Group normally by way of dividends.

The Group is primarily a provider of equity capital to its subsidiaries. There investments are substantially funded by the Group's own capital issuance and profit retentions. The Group seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the consolidated balance sheet: issued capital, retained profits, capital reserves and statutory reserve.

42. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been added to show separately the comparative amounts in respect of the items disclosed for the first time in 2007.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2008.

A summary of the results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the current year's published audited financial statements and annual report for the year ended 31 December 2006, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
REVENUE	**174,672**	147,806	135,432	121,989	101,068
PROFIT BEFORE TAX	**29,124**	27,730	30,447	29,961	27,433
TAX	**(7,126)**	(6,667)	(3,921)	(4,053)	(3,854)
PROFIT FOR THE YEAR	**21,998**	21,063	26,526	25,908	23,579
ATTRIBUTABLE TO:					
Shareholders of the Company	**19,929**	20,151	24,352	23,834	21,342
Minority interests	**2,069**	912	2,174	2,074	2,237
	21,998	21,063	26,526	25,908	23,579

ASSETS, LIABILITIES AND EQUITY

	31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
TOTAL ASSETS	**348,672**	336,772	211,057	179,618	134,966
TOTAL LIABILITIES	**(145,680)**	(147,048)	(88,114)	(63,601)	(29,367)
NET ASSETS	**202,992**	189,724	122,943	116,017	105,599
REPRESENTED BY:					
EQUITY ATTRIBUTABLE TO					
SHAREHOLDERS OF THE COMPANY	**181,027**	170,852	112,660	106,308	97,964
MINORITY INTERESTS	**21,965**	18,872	10,283	9,709	7,635
TOTAL EQUITY	**202,992**	189,724	122,943	116,017	105,599