* For identification purpose only

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)

08

Progressive **Expansion**
Solid **Improvement**

Annual Report **2008**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

Contents

Corporate Information

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

WEBSITES

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
Mr. Rong Yang
Ms. Qin Xuemin
Mr. Wang Fu Gen
Ms. Yu Xiaomin

Independent Non-executive Directors
Dr. Rao Yi
Dr. Hu Canwu Kevin
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.

Equity holders of the parent 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.

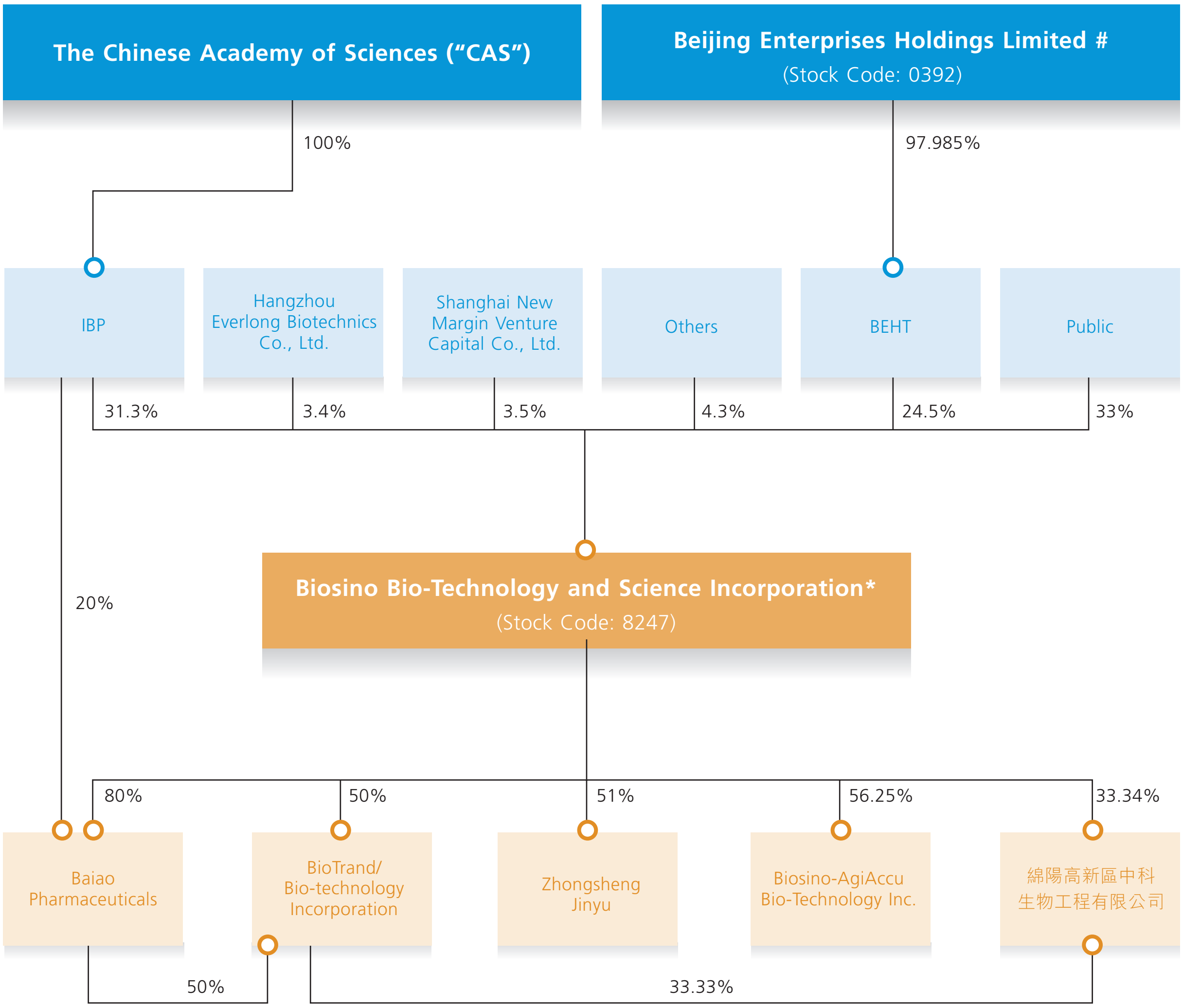
The Group ranked No. 1 in the conventional chemistry reagent market in China. Lumbrokinase capsule is included in the Drugs Catalogue of National Basic Medical Insurance （國家基本醫療保險藥品目錄） and Reimbursable Drugs Catalogue of Public Medical and Labour Insurance in Beijing Municipality （北京市公費醫療、勞保醫療用藥報銷範圍）, 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 19 March 2009



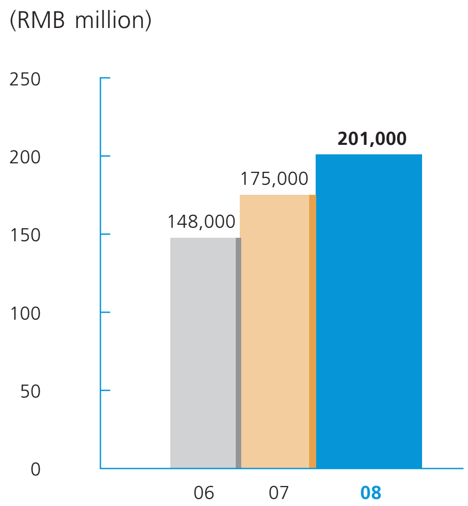
* Listed on the GEM of the Stock Exchange

\# Listed on the Main Board of the Stock Exchange

Financial Highlights

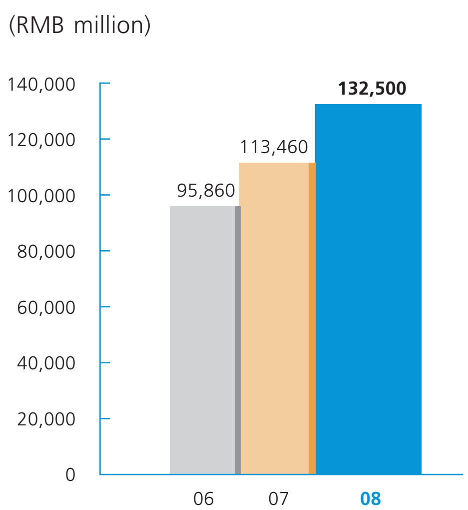
- Revenue for the year kept growing to RMB201 million, representing an increase of 14.8% from that of last year.
- Profit for the year amounted to RMB26 million, representing an increase of 17.8% from that of last year.
- Profit attributable to equity holders of the parent for the year amounted to RMB24 million, representing an increase of 20.2% from that of last year.
- A final dividend of RMB0.1 per share is proposed for the year ended 31 December 2008.

1. REVENUE FOR THE YEAR

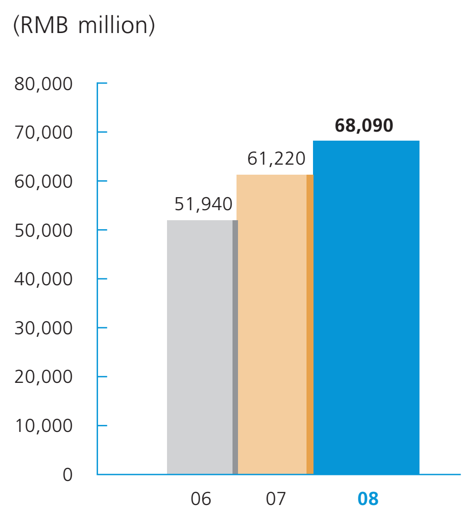


2. REVENUE BY PRODUCT

a) In-vitro Diagnostic Reagents

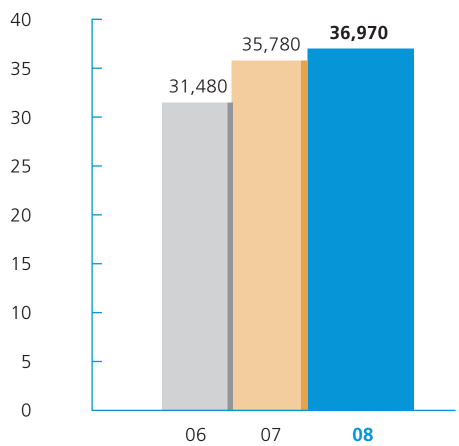


b) Pharmaceutical Products



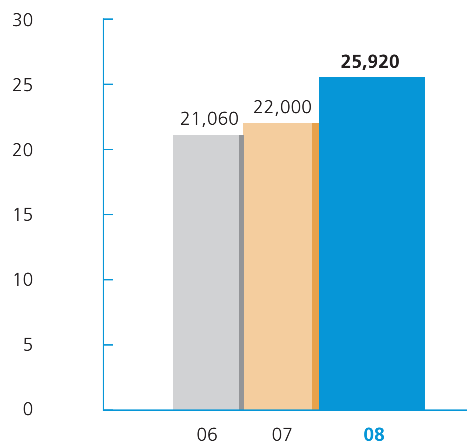
3. PROFIT FROM OPERATING ACTIVITIES

(RMB'000)



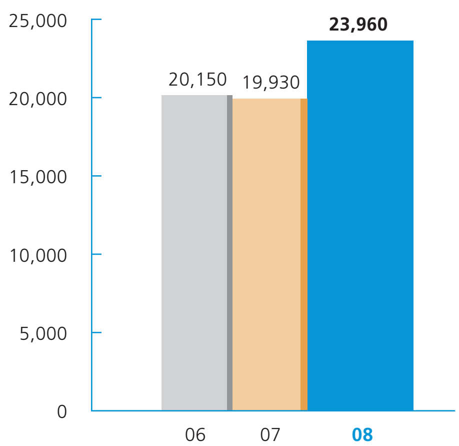
4. PROFIT FOR THE YEAR

(RMB'000)



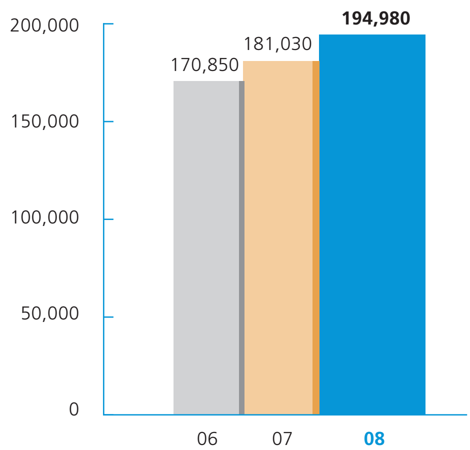
5. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

(RMB'000)



6. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

(RMB'000)



Chairman's Statement

Sound Strategies CONTINUED GROWTH

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 2008.

Mr. Wu Lebin,
Chairman of the Board

Adhering to the principle of "technologies enrich living standards", the Group advocates the corporate spirit of "integrity, collaboration, dedication, innovation"; continues to strive for the steady development of the enterprise; and maximizes the interest of the shareholders. In view of the development of the domestic and overseas biological sector, the Group faces tremendous opportunities as well as challenges. In addition to enhancing technology innovation, the Group will actively explore new commercial patterns, expand the industry chain as well as improve the industry system, so as to increase its core competitiveness.

During the year, despite the impact and inconvenience caused by the natural disasters, the Olympic games and the financial turmoil towards our business, the Group continued to adopt an active and progressive approach that we have solidified and extended the business areas; developed and launched new products; enhanced product quality; and explored the market. The Group achieved all operating missions assigned by the Board and achieved continued growth and sound development.

FINANCIAL RESULTS

During the year, the revenue of the Group was RMB201 million, representing an increase of 14.8% as compared with last year. Profit for the year was RMB26 million, representing an increase of 17.8% as compared with last year. Profit attributable to equity holders of the parent was RMB24 million, representing an increase of 20.2% as compared with last year. Cash and cash equivalents at the balance sheet date were approximately RMB85 million, showing a relatively strong capital position of the Group.

Revenue from sale of in-vitro diagnostic reagents for the year grew by 16.8% from RMB113.5 million over the same period last year to approximately RMB132.5 million, accounting for 66.1% of total revenue. Revenue from sale of pharmaceutical products grew by 11.2% from RMB61.2 million over the same period last year to approximately RMB68.1 million, accounting for 33.9% of total revenue. Research and development cost for the year amounted to RMB14.2 million, accounting for 7.1% of total revenue and reached a record high.

DIVIDEND

In return for the support of equity holders of the parent 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 2008. 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 endeavors to contribute favourable returns to its shareholders.

BUSINESS REVIEW

During 2008, despite many negative impacts on the business of the Group caused by the natural disasters, the Olympic games and the financial turmoil, the Group actively adjusted corresponding strategies such that sales grew steadily and each business segment recorded relatively faster growth.

During the reported period, revenue from in-vitro diagnostic reagent business increased by 16.8% to RMB132.5 million. The increase in revenue is mainly driven by the rise in sales of the Group’s reagent products. In addition, Baiao Pharmaceuticals and Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd. (“Zhongsheng Jinyu”), subsidiaries of the Group, recorded an increase in revenue of 10.6% and 56.7% respectively.

During the reported period, the Group improved its existing products and launched new products through its research and development. Two new products have obtained product registration certificates, whereas another three new products have completed the standard approval procedures. During the reported period, the Group was granted one invention patent, whereas two other patents were under application.

During the reported period, another 11 reagent products of the Group were granted the CE certification. So far, the Group has a total of 20 products that have obtained the CE certifications granted by TuV Rheinland of Germany. CE certification is the permit for admission to EU market, representing our products have fulfilled the safety, sanitary, environmental protection and consumer protection standards required by a number of European Directives and can be sold in all EU member countries. Obtaining the CE certificate undoubtedly enabled the Group to expand its international business. During the reported period, our diagnostic reagent products were sold in 20 countries.

Chairman's Statement

During the reported period, the Group continued to enhance its efforts in marketing and expansion and actively participated in tender purchases in accordance with the requirements of the medical reform. It successfully acquired 26 tenders in 11 provinces and cities; whereas eight 3A Graded hospitals were added to the major customer portfolio. In addition, the Group had fully kicked off the sales of biochemical analyzers. This helps increase the revenue of the Group and also enhance the revenue of the diagnostic reagents.

During the reported period, the construction of the 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 was completed and approved after inspection. The new plant will become the production line for immune diagnostic reagents, samples and other new products. This represents a brand new area that the Group has been long-awaited to tap into for its business expansion and will significantly expand its productivity and market share.

PROSPECTS

With the government increasing emphasis and resources placed on medical affairs and introduction of industry reform measures, the medical sector in China will enter into an era of rapid growth. This year, the market sentiment and business environment of the industry improved further. Despite the substantial impact of the financial meltdown on various sectors, the medical sector will remain one of the fastest growing sectors in the PRC.

For the three years since its listing, the Group has basically completed the manufacturing system development, market network development and R&D system development for in-vitro diagnostic reagents after adapting to and assimilation with the new production facilities. As time goes by, the benefits of the systems will emerge gradually. Looking forward, the Group will seize the opportunities in the medical sector in China, particularly those in the fast growing medical market for the middle class; overcome challenges to strengthen its two major series of products, namely in-vitro diagnostic reagent products and drugs in response to the self innovation concept as advocated by the government. This will allow the Group to gradually realize the balanced development of the diagnostic products business and drug business and to become a leading enterprise in the PRC engaging in the health enhancing protein business with international exposure.

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 returns 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
19 March 2009

Management Discussion and Analysis

BUSINESS ENVIRONMENT

During 2008, China experienced the effect from natural disasters, the Olympic games and global financial crisis, resulted uncertainties in every sector and industry and increase requirements on the business flexibility/adaptability to changes of every enterprise.

Within the medical sector, apart from continuous growth in the high-end market, expansion in low-to-middle market was obvious. As the market expanded, the annual growth of the medical industry in China reached over 26%. Meanwhile, market competitions become keen. With more and more market entrants, enterprises had to enhance product quality but lower product price. On the other hand, there are challenges with rising labor costs and operating expenses after the new labor laws.

In the same time, the government has increased investment in the medical sector and subsequently implemented a series of policies to stimulate and drive the domestic demand to cope with the financial crisis. Under the new policy directive of self innovation, the corresponding measures being implemented by various local government departments are expected to come in place. All these factors have brought in tremendous vitality and momentum to the growth of the medical sector.

Under these circumstances, being a manufacturer of clinical diagnostic reagents and biological pharmaceuticals in China, the Group maintains its competitive advantages in quality and pricing to achieve continuous growth.

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 the SFDA.

In 2008, the Group's consolidated revenue amounted to approximately RMB201 million, representing an increase of 14.8% from that of last year, primarily attributable to an increase in the sales of major products. In particular, the revenue of in-vitro diagnostic reagents increased by 16.8% to RMB132.5 million from that of last year, accounted for 66.1% of the total revenue. In terms of the pharmaceutical products, the revenue of Lumbrokinase capsules increased by 11.2% to RMB68.1 million.

Research and Development Costs

During 2008, the Group's achievements in research and development included: i) obtained acceptance for registration of 2 new products including Creatinine Control and C-Reactive Protein Calibrator; ii) completed standards of 3 new products, including Iron Kit, Haptoglobin Assay Kit and Glucosylated Serum Proteins Kits; iii) Alpiostadil, attained the stage of technical review by SFDA approval center for injection usage; iv) Pancreatic Kininogenase Enteric-coated capsule is in the stage of the technical review by the SFDA approval center. In the meantime, the Group commenced the construction of antibody substances research laboratory. Total research and development expenses for the year amounted to RMB14.2 million, representing an increase of 16.4% as compared with that of last year.

Profit Attributable to Shareholders of the Company

The Group's profit attributable to equity holders of the parent for the year was approximately RMB24 million, representing an increase of 20.2% from that of last year. The increase in profit attributable to shareholders of the Company is in line with the increase in revenue for the year.

Production Facilities

In 2007, the Group's production line for immune diagnostic reagents at Science and Technology Industrial Park in Changping District of Beijing was inspected and approved according to the GMP standard. This further expanded the Group's production capacities.

PROSPECTS AND FUTURE OUTLOOK

With the increasing resources inputted by the government and new policies imposed on medical affairs, the development of medical industry in China will grow rapidly. The operating condition of the industry was improved during the year. Although the significant impact by the financial crisis on various sectors, the Government defined various plans to stimulate the economy; hence, medical industry will remain one of the fastest growing sectors in China.

The Group has established a fundamental for clinical biochemical diagnosis and protein related drugs. As there are more investments in the production, the efficiency will be gradually increased. Under appropriate condition, the Group can strengthen its competitive advantages and tackle challenges. This will allow the Group to gradually achieve a balanced development of the diagnostic product business and drug business and to become a leading position in the industry within China so that the returns of the shareholders will be maximized.

CAPITAL STRUCTURE

As at 31 December 2008, there was no major change in the capital structure of the Company as compared to last year.

LIQUIDITY AND FINANCIAL POSITION

Cashflow and Financial Position

	2008 **RMB million**	2007 RMB million
Cash	**85**	149
Short-term loans	**40**	50
Long-term loans	**–**	40
Net cash	**45**	59
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 RMB14 million, which was mainly due to the repayment of bank loans.

FOREIGN CURRENCY RISK

The Group's business are located in the PRC and transactions are mainly conducted in Renminbi, except for the fact that the Group occasionally purchases equipment from overseas countries for resale in the PRC. 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 2008, the Group's bank loans were secured by the Group's land in the PRC and building erected thereon, with an aggregate carrying value of approximately RMB59,106,000 at the balance sheet date.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group are set out in note 37 to the financial statements.

EMPLOYEES

As at 31 December 2008, the Group had a total of 609 full-time employees (2007: 613 employees) based in Hong Kong and China. The total staff costs of the Group (including the directors' remunerations) for the year ended 31 December 2008 amounted to approximately RMB40.92 million (2007: RMB37.45 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.

Management Discussion and Analysis

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 12 months ended 31 December 2008.

Business Objectives	Actual Business Progress as of December 2008
Expanding research and development effort in product development:	
– Complete the development of Protein Microarrays	– Implementation of the project has been delayed
– Continue research and the research and development of antibody substances	– IgG Antibody production has been completed and putting on a small scale production
– Carry out the trial commencement of tumour prognostic solutions a and cardiac muscular triple card prognostic solutions, and the registration of products	– The project has been completed and production of products has been approved
– Begin the registration of Lumbrokinase injection	– As a result of the implementation of the newly revised Drug Registration Administration Rules (Trial Implementation), the standards of the technical evaluation for special reagent drugs are more stringent. Supplementary information is being requested by the Drug Evaluation Center of the State Food and Drug Administration and the approval document for clinical purposes is expected to be granted in the second half of the year.
– Carry out the trial production of rapid testing cards for infectious diseases and the registration of product	– AIDS and Hepatitis B testing products have been released through agencies
Consolidating the Group's existing PRC sales network and exploring business opportunities in other Asian countries	
– Organize live the 20th anniversary celebration event and sales promotional activities	– The event has not been commenced due to the Olympic games

Introducing new products periodically

– Launch Lumbrokinase injections	– Due to technical reasons, the research and manufacturing of Lumbrokinase injections have not commenced yet
– Launch turnover prognostic solution, cardiac muscular triple card and infectious diseases rapid testing card	– The project has been completed and production of products has been approved
– Obtain new drug certificate for Pancreatic Kininogenase and commence production	– As the State Food and Drug Administration is centralizing the evaluation work on the registration applications for the transitional period, which have been filed but not yet evaluated prior to 1 October 2007, the evaluation of this drug is delayed and is still under technical evaluation. Approval document for production is expected to be granted and production is expected to commence in the second half of the year
– Launch Protein Microarrays	– Implementation of the project has been delayed

Forming strategic alliances

– Continue seeking strategic alliances with bio-chemical diagnostic equipment manufacturers to explore business opportunities in the PRC and overseas markets	– Company's products are expanded and available for sale in 20 countries

USE OF PROCEEDS

The actual use of proceeds for the year ended 31 December 2008, as compared to the amount set out in the section headed "Reasons for the Placing and the Use of Proceeds" of the Company's prospectus, is summarised as follows:

	Proposed HK$'000	**Actual** HK$'000
Expanding research and development effort in product development	11,000	11,308
Enhancing the existing PRC sales network and exploring business opportunities in other Asian countries	3,900	3,900
Product promotion	400	400
Working capital	360	360
Total	15,660	15,968

Corporate Governance Report

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 2008 by establishing a formal and transparent procedures to protect and maximise the interests of equity holders of the parent 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 2008, the Board mainly comprised fourteen directors, including the chairman, executive directors, non-executive directors and independent non-executive directors. Each of the directors (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 equity holders of the parent. 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 of the Board.

During the year of 2008, 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 director is responsible for the overall management of Baiao Pharmaceuticals.

Seven 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 2008.

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 2008, the Board held totally five meetings, one of which was a regular meeting. The average attendance rate reached 86.6%. The details of the Board 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**
17 March 2008	12	9	75%
13 May 2008	12	12	100%
8 August 2008	12	12	100%
20 September 2008	12	7	58%
7 November 2008	12	12	100%

Name of directors	**Number of meetings attended**
Mr. Wu Lebin *(Chairman and Executive director)*	5/5
Mr. Zhang Yong *(Vice Chairman and Non-executive director)*	5/5
Dr. Gao Guang Xia *(Vice Chairman and Non-executive director)*	5/5
Dr. Wang Lin *(Executive director)*	5/5
Mr. Hou Quanmin *(Executive director)*	5/5
Ms. Li Chang (Non-executive director, resigned on 16 May 2008)	2/5
Mr. Rong Yang *(Non-executive director)*	5/5
Ms. Qin Xuemin *(Non-executive director, appointed on 16 May 2008)*	3/5
Mr. Wang Fu Gen *(Non-executive director)*	4/5
Ms. Yu Xiaomin *(Non-executive director)*	4/5
Dr. Cheng Jing *(Independent non-executive director, resigned on 16 May 2008)*	1/5
Dr. Rao Yi *(Independent non-executive director, appointed on 16 May 2008)*	2/5
Dr. Hua Sheng *(Independent non-executive director, resigned on 10 November 2008)*	3/5
Mr. Chan Yiu Kwong *(Independent non-executive director)*	3/5

CHAIRMAN AND EXECUTIVE DIRECTORS

During the year of 2008, 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. The Directors have confirmed that they have complied with the Listing Rules throughout the year ended 31 December 2008.

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 2008, 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 2008, 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 provisions 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, 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 2008, 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 (Resigned on 16 May 2008)	2/4
Dr. Hua Sheng (Resigned on 10 November 2008)	4/4
Dr. Rao Yi (Appointed on 16 May 2008)	2/4
Mr. Chan Yiu Kwong	4/4

The audit committee, including independent non-executive directors of Dr. Cheng Jing, Dr. Hua Sheng, Dr. Rao Yi 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 2008.

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 page 39.

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 conducted 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 performed 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, Guangdong Securities 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 or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2008 pursuant to Rule 6A.32 of the GEM Listing Rules.

Pursuant to an agreement dated 24 June 2008 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Company's compliance adviser for the period from 28 June 2008 to 31 March 2009 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.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

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 2008 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 109.

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 26 May 2009. 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 to 2008 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, is set out on page 110. 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 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, 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 RMB21,190,000 were available for distribution by way of future capitalisation issue. Retained profits of the Company, as at 31 December 2008, amounted to approximately RMB35,998,000, 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 25% of the total sales for the year and sales to the largest customer included therein amounted to 8%. Purchases from the Group's five largest suppliers accounted for 42% of the total purchases for the year and purchases from the largest supplier included therein amounted to 25%.

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 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	(Resigned on 16 May 2008)
Mr. Rong Yang	
Ms. Qin Xuemin	(Appointed on 16 May 2008)
Mr. Wang Fu Gen	
Ms. Yu Xiaomin	

Independent non-executive directors:

Dr. Cheng Jing	(Resigned on 16 May 2008)
Dr. Rao Yi	(Appointed on 16 May 2008)
Dr. Hua Sheng	(Resigned on 10 November 2008)
Mr. Chan Yiu Kwong	

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

Subsequent to the balance sheet date, on 9 February 2009. Dr. Hu Canwu Kevin was appointed as an independent non-executive director of the Company.

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

The Board 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 to 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

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 2008, 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	1.49%	1.00%
Mr. Hou Quanmin *(note)*	150,000	0.22%	0.15%
Dr. Wang Lin *(note)*	100,000	0.15%	0.10%

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

Save as disclosed above, as at 31 December 2008, 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 or had exercised any such rights as at 31 December 2008.

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 equity holders of the parent are concerned. Further details of the transactions undertaken in connection with these contracts during the year are included in note 41(a) to the financial statements.

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

At 31 December 2008, 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 Institute of Biophysics of Chinese Academy of Sciences	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%
K.C. Wong Education Foundation	Directly beneficially owned	–	3,800,000	11.52%	3.8%
Chung Shek Enterprises Company Limited	Through controlled corporations	–	3,800,000	11.52%	3.8%
Pheim Asset Management (Asia) Pte Ltd	Through controlled corporations	–	3,050,000	9.24%	3.05%
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 2008, 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 interests or short positions 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 Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code") for the year ended 31 December 2008 by establishing a formal and transparent procedures to protect and maximise the interests of shareholders during the period under review, except for the deviation that Mr. Wu Lebin assumes the role of both the chairman of the Board and the president of the Company. The Board is of the view that it is in the best interests of the Group to have Mr. Wu, who has 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.

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 announcement, none of the directors who is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the GEM Listing Rules.

COMPLIANCE ADVISER'S INTEREST

As updated and notified by the Company's compliance adviser, Guangdong Securities 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 or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2008 pursuant to Rule 6A.32 of the GEM Listing Rules.

Pursuant to an agreement dated 24 June 2008 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Company's compliance adviser for the period from 28 June 2008 to 31 March 2009 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 41 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 equity holders of the parent 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. Rao Yi, Dr. Hu Canwu Kevin and Mr. Chan Yiu Kwong. The Group's audited results for the year ended 31 December 2008 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
19 March 2009

Report of the Supervisory Committee

To all shareholders,

Since the establishment 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 Supervisory Committee considers that the Company's 2008 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.

Immediately after the knowledge of the loss arising from the short-term security investment of the Company, the Supervisory Committee has organized and convened a meeting on a timely basis on 4th November 2008 to investigate and make corresponding resolutions.

The Supervisory Committee will strictly observe the articles of association of the Company and the relevant requirements in 2009 to better discharge its duty, including securing shareholders' interests.

The Third Supervisory Committee of Biosino Bio-Technology and Science Incorporation

He Rongqiao
Chairman of the Supervisory Committee

Beijing, People's Republic of China
19 March 2009

Directors, Supervisors and Senior Management

CHAIRMAN OF THE BOARD

Mr. Wu Lebin（吳樂斌先生）, aged 46, 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 NON-EXECUTIVE DIRECTORS

Mr. Zhang Yong（張勇先生）, aged 42, 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 43, 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 41, 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 managing director. 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 42, 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

Ms. Li Chang（李暢女士）, aged 42, 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 and resigned on 16 May 2008.

Mr. Rong Yang（榮洋先生）, aged 49, is a non-executive Director of the Company. Mr. Rong graduated from Peking Union Medical College（中國協和醫科大學）with a master's degree in medicine in 1987 and was awarded a certificate by the Educational Commission for Foreign Medical Graduates in 1991. Mr. Rong has been the assistant to the general manager of BEHT since 2003 and was appointed by BEHT as its representative on the Board. Mr. Rong joined the Company in December 2004.

Directors, Supervisors and Senior Management

Ms. Qin Xuemin（秦學民女士）, aged 50, obtained a master's degree from the Beijing Institute of Technology. Ms. Qin had been working at the Beijing New Technology Industrial Development Test Zone (the "Test Zone") for many years. She had been worked as head of its office of Stateowned assets investment business companies and vice-chairman of the administration office for Stateowned assets of the Test Zone. Ms. Qin served as deputy general manager of Beijing Enterprises Holdings New Auto E-commerce Ltd.（北控新奧特電子商務股份有限公司）from 2000 to 2001. Ms. Qin is currently a Director and Deputy General Manager of Beijing Enterprises Holdings High-Tech. Development Co., Ltd. Ms. Qin joined the Company in May 2008.

Mr. Wang Fu Gen（王福根先生）, aged 45, 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 68, 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

Dr. Cheng Jing（程京博士）, aged 45, 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 and resigned in May 2008.

Dr. Hua Sheng（華生博士）, aged 56, 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. Dr. Hua resigned in November 2008.

Dr. Rao Yi（饒毅博士）, aged 46, graduated from the Jiangxi Medical College（江西醫學院）with a bachelor's degree in medicine in 1983 and was studying for a postgraduate master program in the teaching and research section of neurobiology at the Shanghai First Medical College（上海第一醫學院）from 1983 to 1985. Dr. Rao graduated from the University of California, San Francisco, with a PhD degree in neuroscience in 1991. He was a post-doctorate in the Faculty of Biochemistry and Molecular biology, Harvard University, Cambridge, Massachusetts, from 1991 to 1994. Dr. Rao served as assistant professor, associate professor and professor of neurobiology in the Department of Anatomy and Neurobiology, Washington University School of Medicine, St. Louis, MO from 1994 to 2004. Dr. Rao served as professor of neural medicine in the School of Medicine; Elsa Swanson Professor of Neurology; Director of Research, Feinberg Clinical Neuroscience Research Institute; and Associate Director, Institute for Neuroscience at Northwestern University from 2004 to 2007. Dr. Rao is currently a professor and the dean of the School of Life Sciences at the Peking University. Dr. Rao joined the Company in May 2008.

Mr. Chan Yiu Kwong（陳耀光先生）, aged 44, graduated from the University of Hong Kong with a bachelor's degree in social sciences in 1988 and became a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants in 1999 and 2005 respectively. From June 2004 to July 2006, Mr. Chan served as an independent executive director of Beijing Enterprises Water Group Limited (previously known as "Shang Hua Holdings Limited"), a company listed on the Main Board of Stock Exchange. From March 2001 to December 2007, Mr. Chan served as an executive director of Hi Sun Technology (China) Limited ("Hi Sun"), a company listed on the Main Board of the Stock Exchange, and currently serves as the Company's secretary of Hi Sun. Mr. Chan also serves as an independent non-executive director of A8 Digital Music Holdings Limited, a company listed on the Stock Exchange. Mr. Chan has over 20 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.

Dr. Kevin Canwu Hu（胡燦武博士）, aged 33, graduated from Fudan University in Shanghai with a bachelor degree in finance in 1996. He obtained a double master degree from the University of Lausanne and Ivey Business School in 2003, and obtained a Ph.D. degree in finance from the University of Massachusetts Amherst. From 1996 to 2003, Dr. Hu worked for Golden Lion Management SA in Geneva; from 2004 up to date, Dr. Hu works for UBS and teaches in the University of Massachusetts Amherst as a part-time lecturer. Dr. Wu joined the Company in February 2009.

SUPERVISORS

Dr. He Rongqiao（赫榮喬博士）, aged 54, is a supervisor 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.

Mr. Wang Xin（王昕先生）, aged 39, 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 50, 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 46, 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 45, 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 42, 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 46, 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.

Mr. Gao Sheng Li（高勝利先生）, aged 40, 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 49, 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 was 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 38, 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 chief financial officer of Beijing Enterprises Water Group Limited, and an independent non-executive director of South China Financial Holdings Limited, companies listed on the Main Board of the Stock Exchange. Mr. Tung joined the Company in December 2005.

Directors, Supervisors and Senior Management

QUALIFIED ACCOUNTANT

Mr. Cheung Yeung（張洋先生）, aged 29, 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.

Independent Auditors' Report

ERNST & YOUNG

To the shareholders of
Biosino Bio-Technology and Science Incorporation
(Established in the 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 109, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

Independent Auditors' Report

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 2008 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
19 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	**200,591**	174,672
Cost of sales		**(65,248)**	(62,087)
Gross profit		**135,343**	112,585
Other income and gains	5	**13,796**	14,961
Selling and distribution expenses		**(52,808)**	(45,499)
Administrative expenses		**(37,826)**	(28,901)
Research and development expenses		**(14,229)**	(12,219)
Other operating expenses, net		**(7,303)**	(5,149)
PROFIT FROM OPERATING ACTIVITIES	6	**36,973**	35,778
Finance costs	7	**(5,578)**	(6,022)
Share of losses of:			
A jointly-controlled entity		**–**	(632)
Associates		**(316)**	–
PROFIT BEFORE TAX		**31,079**	29,124
Tax	10	**(5,156)**	(7,126)
PROFIT FOR THE YEAR		**25,923**	21,998
Attributable to:			
Equity holders of the parent	11	**23,955**	19,929
Minority interests		**1,968**	2,069
		25,923	21,998
DIVIDEND			
Proposed final	13	**10,002**	10,002
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
– Basic (RMB)		**0.24**	0.20
– Diluted (RMB)		**N/A**	N/A

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment	*15*	**114,903**	118,998
Prepaid land premiums	*16*	**7,297**	7,470
Goodwill	*17*	**309**	470
Other intangible assets	*18*	**1,581**	2,450
Interest in a jointly-controlled entity	*20*	**–**	268
Interests in associates	*21*	**3,936**	–
Trade and bills receivables	*24*	**410**	1,966
Long-term deposits	*22*	**708**	1,751
Total non-current assets		**129,144**	133,373
Current assets:			
Prepaid land premiums	*16*	**177**	177
Inventories	*23*	**28,469**	24,749
Trade and bills receivables	*24*	**37,047**	33,716
Prepayments, deposits and other receivables	*25*	**7,098**	7,936
Equity investment at fair value through profit or loss	*27*	**10,209**	–
Time deposits	*28*	**6,600**	–
Cash and cash equivalents	*28*	**85,376**	148,721
Total current assets		**174,976**	215,299
TOTAL ASSETS		**304,120**	348,672

Consolidated Balance Sheet *(continued)*

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent:			
Issued capital	*29*	**100,018**	100,018
Reserves	*30(a)*	**84,960**	71,007
Proposed final dividend	*13*	**10,002**	10,002
		194,980	181,027
Minority interests		**22,354**	21,965
TOTAL EQUITY		**217,334**	202,992
Non-current liabilities:			
Bank borrowings	*31*	**–**	40,000
Deferred income	*32*	**14,157**	9,481
Other payables and accruals	*34*	**–**	1,800
Total non-current liabilities		**14,157**	51,281
Current liabilities:			
Trade payables	*33*	**6,923**	7,364
Other payables and accruals	*34*	**21,828**	31,087
Taxes payable	*35*	**3,878**	6,156
Bank borrowings	*31*	**40,000**	49,792
Total current liabilities		**72,629**	94,399
TOTAL LIABILITIES		**86,786**	145,680
TOTAL EQUITY AND LIABILITIES		**304,120**	348,672

Wu Lebin
Director

Wang Lin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Notes	Attributable to equity holders of the parent							
		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 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		–	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		–	–	–	–	–	–	574	574
Transfer to statutory reserves	12(a)	–	–	2,352	(2,352)	–	–	–	–
Dividend paid		–	–	–	–	(10,002)	(10,002)	–	(10,002)
Proposed 2007 final 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

	Notes	Attributable to equity holders of the parent							
		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 2008		**100,018**	**30,557***	**22,531***	**17,919***	**10,002**	**181,027**	**21,965**	**202,992**
Profit for the year		**–**	**–**	**–**	**23,955**	**–**	**23,955**	**1,968**	**25,923**
Total income and expense for the year		**–**	**–**	**–**	**23,955**	**–**	**23,955**	**1,968**	**25,923**
Capital contributions from minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**1,200**	**1,200**
Disposal of a subsidiary	36	**–**	**–**	**–**	**–**	**–**	**–**	**(2,379)**	**(2,379)**
Transfer to statutory reserves	12(a)	**–**	**–**	**5,460**	**(5,460)**	**–**	**–**	**–**	**–**
Transfer from retained profits	12(b)	**–**	**569**	**–**	**(569)**	**–**	**–**	**–**	**–**
Dividend paid	13	**–**	**–**	**–**	**–**	**(10,002)**	**(10,002)**	**–**	**(10,002)**
Dividend paid to minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**(400)**	**(400)**
Proposed 2008 final dividend	13	**–**	**–**	**–**	**(10,002)**	**10,002**	**–**	**–**	**–**
At 31 December 2008		**100,018**	**31,126***	**27,991***	**25,843***	**10,002**	**194,980**	**22,354**	**217,334**

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 RMB71,007,000 and RMB84,960,000 in the consolidated balance sheet as at 31 December 2007 and 2008, respectively.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**31,079**	29,124
Adjustments for:			
Bank interest income	5	**(1,638)**	(1,641)
Imputed interest income on interest-free trade receivables with extended credit periods	5	**(214)**	(180)
Finance costs	7	**5,578**	6,022
Share of loss of a jointly-controlled entity		**–**	632
Share of losses of associates		**316**	–
Gain on disposal of a subsidiary	5	**(192)**	–
Gain on disposal of a jointly-controlled entity	5	**(377)**	–
Loss on disposal of equity investment at fair value through profit or loss	6	**3,620**	–
Fair value loss on equity investments at fair value through profit or loss, net	6	**1,821**	–
Depreciation	6	**12,499**	10,784
Amortisation of prepaid land premiums	6	**173**	56
Amortisation of other intangible assets	6	**869**	900
(Gain)/loss on disposal of items of property, plant and equipment, net	6	**(4)**	42
Provision/(reversal of provision) against slow-moving inventories and inventory loss, net	6	**(56)**	596
Impairment of goodwill	6	**161**	–
Impairment of trade and bills receivables, net	6	**350**	1,396
Reversal of impairment of other receivables, net	6	**(143)**	(358)
		53,842	47,373
(Increase)/decrease in long-term deposits		**1,556**	(1,751)
Increase in inventories		**(3,734)**	(4,113)
Increase in trade and bills receivables		**(3,681)**	(7,403)
Decrease in prepayments, deposits and other receivables		**970**	3,003
Increase/(decrease) in trade payables		**(441)**	5,009
Decrease in other payables and accruals		**(1,681)**	(2,979)
Increase/(decrease) in other taxes payable		**809**	(292)
Increase/(decrease) in deferred income		**4,876**	(3,339)
Cash generated from operations		**52,516**	35,508
PRC income tax paid		**(8,241)**	(6,685)
Interest received		**1,852**	1,641
Net cash inflow from operating activities		**46,127**	30,464

Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net cash inflow from operating activities		**46,127**	30,464
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(17,644)**	(18,836)
Addition to prepaid land premiums		**–**	(600)
Purchases of other intangible assets		**–**	(912)
Proceeds from disposal of items of property, plant and equipment		**687**	456
Investment in a jointly-controlled entity		**–**	(900)
Investments in associates		**(400)**	–
Decrease in a pledged bank balance		**–**	3
Increase in time deposits		**(6,600)**	–
Acquisition of equity investments		**(73,437)**	–
Disposal of equity investments		**57,787**	–
Deemed disposal of a subsidiary	*36*	**(5,293)**	–
Net cash outflow from investing activities		**(44,900)**	(20,789)
CASH FLOWS FROM FINANCING ACTIVITIES			
Refund of over-accrual of share issue expenses		**–**	248
Capital contributions from minority shareholders		**1,200**	450
New bank loans		**10,000**	19,792
Repayment of bank loans		**(59,792)**	(20,000)
Interest paid		**(5,578)**	(6,022)
Dividends paid		**(10,402)**	(10,002)
Net cash outflow from financing activities		**(64,572)**	(15,534)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(63,345)**	(5,859)
Cash and cash equivalents at beginning of year		**148,721**	154,580
CASH AND CASH EQUIVALENTS AT END OF YEAR		**85,376**	148,721
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*28*	**85,374**	108,449
Non-pledged time deposits with original maturity of less than three months when acquired	*28*	**–**	5,800
Cash equivalents	*28*	**2**	34,472
		85,376	148,721

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets:			
Property, plant and equipment	*15*	**50,890**	49,264
Prepaid land premiums	*16*	**3,386**	3,467
Other intangible assets	*18*	**–**	456
Interests in subsidiaries	*19*	**55,774**	59,292
Interest in a jointly-controlled entity	*20*	**–**	900
Interests in associates	*21*	**5,100**	–
Trade and bills receivables	*24*	**410**	1,966
Long-term deposits	*22*	**449**	1,743
Total non-current assets		**116,009**	117,088
Current assets:			
Prepaid land premiums	*16*	**75**	75
Inventories	*23*	**19,007**	16,334
Trade and bills receivables	*24*	**15,802**	14,398
Prepayment, deposits and other receivables	*25*	**3,192**	4,155
Equity investments at fair value through profit or loss	*27*	**10,209**	–
Cash and cash equivalents	*28*	**61,122**	114,487
Total current assets		**109,407**	149,449
TOTAL ASSETS		**225,416**	266,537

Balance Sheet *(continued)*

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
EQUITY AND LIABILITIES			
Equity:			
Issued capital	29	**100,018**	100,018
Reserves	30(b)	**65,547**	54,681
Proposed final dividend	13	**10,002**	10,002
TOTAL EQUITY		**175,567**	164,701
Non-current liabilities:			
Bank borrowings	31	**–**	40,000
Deferred income	32	**3,612**	2,167
Total non-current liabilities		**3,612**	42,167
Current liabilities:			
Trade payables	33	**3,396**	5,227
Other payables and accruals	34	**10,656**	10,404
Taxes payable	35	**2,185**	4,038
Bank borrowings	31	**30,000**	40,000
Total current liabilities		**46,237**	59,669
TOTAL LIABILITIES		**49,849**	101,836
TOTAL EQUITY AND LIABILITIES		**225,416**	266,537

Wu Lebin
Director

Wang Lin
Director

Notes to Financial Statements

31 December 2008

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 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 (the "HKICPA"), 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, except for equity investments at fair value through profit or loss, which have been measured at fair value. 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 for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary 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.

Notes to Financial Statements

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to 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 interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 – *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to HKAS 39 ***Financial Instruments: Recognition and Measurement*** **and HKFRS 7** ***Financial Instruments: Disclosures – Reclassification of Financial Assets***

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

Notes to Financial Statements

31 December 2008

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

(a) Amendments to HKAS 39 ***Financial Instruments: Recognition and Measurement*** **and HKFRS 7** ***Financial Instruments: Disclosures – Reclassification of Financial Assets*** *(continued)*

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 – ***HKFRS 2 – Group and Treasury Share Transactions***

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 buys 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. As the Group currently has no such arrangements, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 – ***Service Concession Arrangements***

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 – ***HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, 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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

Notes to Financial Statements

31 December 2008

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, which have been issued but are not yet effective, in these financial statements:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments*: *Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[2]

Apart from the above, the HKICPA has issued *Improvements* to *HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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

* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

Notes to Financial Statements

31 December 2008

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

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

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 purpose 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 will apply HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

Notes to Financial Statements

31 December 2008

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

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.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has not issued such instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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. As the Group currently has no customer loyalty award programme, the interpretation is not applicable to the Group.

HK(IFRIC)-Int 15 will replace HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

Notes to Financial Statements

31 December 2008

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

HK(IFRIC)-Int 18 clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). As the Group currently has no such assets transferred from customers, the interpretation is unlikely to have any financial impact on the Group.

Improvements to HKFRSs

In October 2008, the HKICPA issued its *first Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. Those amendments that may have a significant impact on the Group are as follows:

(a) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.

(b) HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to "total interest income" as a component of finance costs.

(c) HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.

(d) HKAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is calculated as the higher of an asset's fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

(e) HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

(f) HKAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(g) HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(h) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

Notes to Financial Statements

31 December 2008

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

Improvements to HKFRSs *(continued)*

(i) HKAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39 *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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the 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 is treated as a non-current asset and is stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are 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 associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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. 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.

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 an 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 an impairment loss is credited to the income statement in the period in which it arises.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party, directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); 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).

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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:

Buildings	3.3% to 4.75%
Other structures	9.5%
Leasehold improvements	Over the shorter of lease terms and 10%
Machineries	8.6% to 19.4%
Furniture and fixtures	19.0% to 31.67%
Motor vehicles	19.0% to 23.75%

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least 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 or installation 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 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.

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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.

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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.

Notes to Financial Statements

31 December 2008

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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 recognised within "Finance 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 and loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 time deposits, 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, associates and interests in joint ventures, 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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Retirement benefit costs

In accordance with the rules and regulations in the PRC, the employees of the Group participate in a defined contribution retirement benefit scheme operated by the relevant municipal government in the PRC, 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 benefit scheme. The employer contributions vest fully with the employee 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 dates 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements and estimation uncertainty

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:

Current tax and deferred tax

The Group is subject to income taxes in the PRC. 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 are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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 the future periods.

Notes to Financial Statements

31 December 2008

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

Judgements and estimation uncertainty *(continued)*

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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 and the 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 the 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 on 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.

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. Determining the amounts of development costs to be capitalised requires the use of judgements and estimates.

Notes to Financial Statements

31 December 2008

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 the PRC, and all of the Group's assets are located in the PRC.

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.

Notes to Financial Statements

31 December 2008

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 2008 and 2007.

Year ended 31 December 2008

	In-vitro diagnostic reagent products RMB'000	Pharma-ceutical products RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	132,498	68,093	–	200,591
Other income	2,964	5,295	–	8,259
Total	135,462	73,388	–	208,850
Segment results	26,509	4,927	–	31,436
Unallocated income and gains				5,537
Profit from operating activities				36,973
Finance costs				(5,578)
Share of losses of associates	(316)	–	–	(316)
Profit before tax				31,079
Tax				(5,156)
Profit for the year				25,923
Assets and liabilities				
Segment assets	101,453	98,680	(1,934)	198,199
Interests in associates	3,936	–	–	3,936
Unallocated assets				101,985
Total assets				304,120
Segment liabilities	21,642	23,198	(1,934)	42,906
Unallocated liabilities				43,880
Total liabilities				86,786
Other segment information:				
Depreciation	6,385	6,114	–	12,499
Amortisation of other intangible assets	580	289	–	869
Capital expenditure	7,416	10,228	–	17,644
Impairment of trade and bills receivables	–	350	–	350
Reversal of impairment of other receivables	–	(143)	–	(143)

Notes to Financial Statements

31 December 2008

4. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2007

	In-vitro diagnostic reagent products RMB'000	Pharma-ceutical 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 gains				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
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)

Notes to Financial Statements

31 December 2008

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2008 **RMB'000**	2007 RMB'000
Revenue		
Sale of in-vitro diagnostic reagent products	**132,498**	113,456
Sale of pharmaceutical products	**68,093**	61,216
	200,591	174,672
Other income		
Bank interest income	**1,638**	1,641
Imputed interest income on interest-free trade receivables with extended credit periods	**214**	180
Interest subsidies*	**3,085**	5,010
Other government grants**	**7,364**	3,014
Others	**888**	790
	13,189	10,635
Gains		
Gain on disposal of equity investments at fair value through profit or loss	**–**	4,326
Gain on disposal of a subsidiary *(note 36)*	**192**	–
Gain on disposal of a jointly-controlled entity	**377**	–
Gain on disposal of items of property, plant and equipment, net	**4**	–
Others	**34**	–
	607	4,326
Other income and gains	**13,796**	14,961

* The interest subsidies represented government assistance from a government body in the PRC in respect of the interest expenses incurred by the Group on bank borrowings.

** Various government grants have been received by the Group for 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 relating to these grants, except that they must be utilised for research and development activities of the Group.

Notes to Financial Statements

31 December 2008

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of inventories sold		**64,891**	61,047
Depreciation	*15*	**12,499**	10,784
Amortisation of prepaid land premiums	*16*	**173**	56
Amortisation of other intangible assets*	*18*	**869**	900
Research and development costs		**14,229**	12,219
Less: government grants released		**(7,364)**	(3,014)
		6,865	9,205
(Gain)/loss on disposal of equity investments at fair value through profit or loss		**3,620**	(4,326)
Fair value loss on equity investments at fair value through profit of loss, net		**1,821**	–
(Gain)/loss on disposal of items of property, plant and equipment, net		**(4)**	42
Minimum lease payments under operating leases in respect of land and buildings		**849**	469
Auditors' remuneration		**800**	800
Employee benefit expense (including directors' and supervisors' remuneration (note 8)):			
Wages and salaries		**37,220**	34,870
Retirement benefits scheme contributions		**3,696**	2,578
		40,916	37,448
Provision/(reversal of provision) for slow-moving inventories and inventory loss, net		**(56)**	596
Impairment of trade and bills receivables, net	*24(a)*	**350**	1,396
Reversal of impairment of other receivables, net		**(143)**	(358)
Impairment of goodwill **	*17*	**161**	–
Foreign exchange differences, net		**(57)**	743

* The amortisation of other intangible assets during the year comprised amortisations of know-how and amortisation of computer software of RMB413,000 (2007: RMB444,000) and RMB456,000 (2007: RMB456,000), respectively, which are included in "Cost of sales" and "Administrative expenses" on the face of the consolidated income statement, respectively.

** The impairment of goodwill is included in "Other operating expenses" on the face of the consolidated income statement.

Notes to Financial Statements

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7. FINANCE COSTS

The Group's finance costs for the years ended 31 December 2008 and 2007 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	
	2008	2007
	RMB'000	RMB'000
Fees	**218**	275
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**2,094**	2,560
Retirement benefit scheme contributions	**25**	22
	2,119	2,582
	2,337	2,857

(a) Independent non-executive directors

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

	2008	2007
	RMB'000	RMB'000
Dr. Cheng Jing	**21**	49
Dr. Hua Sheng	**42**	50
Mr. Chan Yiu Kwong	**51**	49
Dr. Rao Yi	**40**	–
Dr. Hu Canwu Kevin	**–**	–
	154	148

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

Notes to Financial Statements

31 December 2008

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

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

2008

	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	–	1,115	9	1,124
Dr. Wang Lin	–	398	9	407
Mr. Hou Quanmin	7	443	–	450
Non-executive directors:				
Mr. Zhang Yong	7	–	–	7
Dr. Gao Guang Xia	10	–	–	10
Ms. Li Chang	4	–	–	4
Mr. Rong Yang	7	–	–	7
Mr. Wang Fu Gen	4	–	–	4
Ms. Yu Xiaomin	3	–	–	3
Ms. Qin Xuemin	4	–	–	4
Supervisors:				
Dr. He Rongqiao	10	–	–	10
Mr. Wang Xin	8	–	–	8
Mr. Shao Yimin	–	138	7	145
	64	2,094	25	2,183

Notes to Financial Statements

31 December 2008

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

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

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

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

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31 December 2008

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2007: two) directors/supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2007: three) non-director/supervisor, highest paid employees for the year are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**927**	1,125
Retirement benefits scheme contributions	**14**	25
	941	1,150

The remuneration of each of the three (2007: three) non-director/supervisor, highest paid employees during the year fell within the band of Nil to RMB892,000 (2007: Nil to RMB975,000) (equivalent 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 (2007: Nil). Taxes on profits assessable in the PRC, where the Group operates, have been calculated at the rates of tax prevailing in the PRC, 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 a concessionary income tax rate of 15% or 7.5%, where appropriate.

	Group	
	2008	2007
	RMB'000	RMB'000
Current – PRC	**5,156**	7,145
Adjustments in respect of current tax of previous periods	**–**	(19)
Total tax charge for the year	**5,156**	7,126

Notes to Financial Statements

31 December 2008

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rate to the tax expense at the Group's effective tax rate, and a reconciliation of the statutory income tax rates to the effective tax rate, are as follows:

	Group			
	2008		2007	
	RMB'000	**%**	RMB'000	%
Profit before tax	**31,079**		29,124	
Tax at the applicable statutory income tax rates	**7,770**	**25.0**	4,369	15.0
Lower tax rate for specific entities	**(4,207)**	**(13.5)**	(207)	(0.7)
Adjustments in respect of current tax of previous year	**–**	**–**	(19)	–
Losses attributable to a jointly-controlled entity	**–**	**–**	95	0.3
Losses attributable to associates	**(15)**	**–**	–	–
Additional tax concession for research and development expenses	**(1,074)**	**(3.5)**	(1,012)	(3.5)
Income not subject to tax	**–**	**–**	(810)	(2.8)
Expenses not deductible for tax	**1,547**	**5.0**	4,123	14.2
Tax losses not recognised	**1,135**	**3.6**	587	2.0
Tax charge at the Group's effective rate	**5,156**	**16.6**	7,126	24.5

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of RMB20,868,000 (2007: RMB16,463,000) which has been dealt with in the financial statements of the Company (note 30(b)).

Notes to Financial Statements

31 December 2008

12. DISTRIBUTION OF PROFIT

(a) 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 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.

In addition, during the year ended 31 December 2008, the Group transferred government grants amounting to RMB2,985,000 from retained profits to the statutory reserves as this is a condition of the grants.

(b) Represented gain on deemed disposal of a subsidiary and a jointly-controlled entity of the Group of RMB192,000 and RMB377,000, respectively.

The above reserves 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 the PRC; and (ii) the profit determined in accordance with HKFRSs.

13. DIVIDENDS

	2008 **RMB'000**	2007 RMB'000
Proposed final dividend – RMB0.10 (2007: RMB0.10) per share	**10,002**	10,002

The proposed final dividend for the year (not recognised as liabilities as at 31 December 2008) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to equity holders of the parent of RMB23,955,000 (2007: RMB19,929,000) and the weighted average number of 100,017,528 (2007: 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 (2007: Nil).

Notes to Financial Statements

31 December 2008

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	Buildings and other structures RMB'000	Leasehold improvements RMB'000	Machineries RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
31 December 2008								
At 31 December 2007 and at 1 January 2008:								
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
Net carrying amount:								
At 1 January 2008		62,080	1,415	44,424	4,775	2,313	3,991	118,998
Additions		585	101	4,079	693	1,472	2,385	9,315
Transfers from CIP		5,690	–	483	31	–	(6,204)	–
Depreciation provided during the year		(2,804)	(506)	(6,799)	(1,392)	(998)	–	(12,499)
Disposals		(482)	–	(195)	(6)	–	–	(683)
Disposal of a subsidiary	*36*	–	–	(48)	(23)	(157)	–	(228)
At 31 December 2008		65,069	1,010	41,944	4,078	2,630	172	114,903
At 31 December 2008:								
Cost		72,356	2,649	63,524	8,741	7,010	172	154,452
Accumulated depreciation		(7,287)	(1,639)	(21,580)	(4,663)	(4,380)	–	(39,549)
Net carrying amount		65,069	1,010	41,944	4,078	2,630	172	114,903

Notes to Financial Statements

31 December 2008

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

Group *(continued)*

	Buildings and other structures RMB'000	Leasehold improvements RMB'000	Machineries RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
31 December 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	–	–	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

Notes to Financial Statements

31 December 2008

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

Company

	Buildings RMB'000	Leasehold improvements RMB'000	Machineries RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
31 December 2008							
At 31 December 2007 and at 1 January 2008:							
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
Net carrying amount:							
At 1 January 2008	20,247	149	21,502	2,190	1,390	3,786	49,264
Additions	555	–	3,593	202	945	2,432	7,727
Transfers from CIP	5,690	–	383	31	–	(6,104)	–
Depreciation provided during the year	(681)	(62)	(3,995)	(686)	(667)		(6,091)
Disposals	–	–	(5)	(5)	–	–	(10)
At 31 December 2008	25,811	87	21,478	1,732	1,668	114	50,890
At 31 December 2008:							
Cost	28,052	308	35,644	4,411	4,516	114	73,045
Accumulated depreciation	(2,241)	(221)	(14,166)	(2,679)	(2,848)	–	(22,155)
Net carrying amount	25,811	87	21,478	1,732	1,668	114	50,890

Notes to Financial Statements

31 December 2008

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

Company *(continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Machineries RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
31 December 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

Note: Certain buildings of the Group and the Company with aggregate net carrying amounts of RMB52,212,000 (2007: RMB51,444,000) and RMB25,811,000 (2007: RMB20,247,000) respectively were pledged to secure certain bank borrowings granted to the Group and the Company as at 31 December 2008 *(note 31)*.

Notes to Financial Statements

31 December 2008

16. PREPAID LAND PREMIUMS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**7,647**	7,103	**3,542**	3,623
Addition	**–**	600	**–**	–
Amortisation provided during the year	**(173)**	(56)	**(81)**	(81)
Carrying amount at 31 December	**7,474**	7,647	**3,461**	3,542
Portion classified as current assets	**(177)**	(177)	**(75)**	(75)
Non-current portion	**7,297**	7,470	**3,386**	3,467

Notes:

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

(b) Certain of the Group's interests in land use rights with an aggregate carrying amount of RMB6,894,000 (2007: RMB7,047,000) and the Company's interests in land use rights with a carrying amount of RMB3,461,000 (2007: RMB3,542,000) were pledged to secure bank borrowings granted to the Group and the Company as at 31 December 2008 *(note 31)*.

17. GOODWILL

	Group	
	2008	2007
	RMB'000	RMB'000
Cost and carrying amount at 1 January	**470**	309
Acquisition of a subsidiary	**–**	161
	470	470
Impairment of goodwill	**(161)**	–
Cost and carrying amount at 31 December	**309**	470

Notes to Financial Statements

31 December 2008

17. GOODWILL *(continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

– Zhongsheng Jinyu; and
– AgiAccu

The recoverable amount of the each of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. No growth has been projected beyond the five-year period. The discount rate applied to the cash flow projections is 7.4%.

Key assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2008. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Expenses – The value assigned to the key assumptions reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.

The values assigned to key assumptions are consistent with external information sources.

Notes to Financial Statements

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18. OTHER INTANGIBLE ASSETS

Group

	Know-how RMB'000	Computer software RMB'000	Total RMB'000
2008			
At 31 December 2007 and 1 January 2008:			
Cost	**4,284**	**912**	**5,196**
Accumulated amortisation	**(2,290)**	**(456)**	**(2,746)**
Net carrying amount	**1,994**	**456**	**2,450**
Net carrying amount:			
At 1 January 2008	**1,994**	**456**	**2,450**
Amortisation provided during the year	**(413)**	**(456)**	**(869)**
At 31 December 2008	**1,581**	**–**	**1,581**
At 31 December 2008:			
Cost	**4,284**	**912**	**5,196**
Accumulated amortisation	**(2,703)**	**(912)**	**(3,615)**
Net carrying amount	**1,581**	**–**	**1,581**
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	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

Notes to Financial Statements

31 December 2008

18. OTHER INTANGIBLE ASSETS *(continued)*

Company

	Computer software RMB'000
2008	
At 31 December 2007 and 1 January 2008:	
Cost	**912**
Accumulated amortisation	**(456)**
Net carrying amount	**456**
Net carrying amount:	
At 1 January 2008	**456**
Amortisation provided during the year	**(456)**
At 31 December 2008	**–**
At 31 December 2008:	
Cost	**912**
Accumulated amortisation	**(912)**
Net carrying amount	**–**
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

Notes to Financial Statements

31 December 2008

19. INTERESTS IN SUBSIDIARIES

	Company 2008 RMB'000	2007 RMB'000
Unlisted equity investments in the PRC, at cost	**55,033**	58,833
Due from a subsidiary	**1,315**	583
Due to a subsidiary	**(574)**	(124)
	55,774	59,292

The amounts due from/to the subsidiary are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the 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 capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principle activities
Beijing Baiao Pharmaceuticals Company Limited* ("Baiao Pharmaceuticals") (北京百奧藥業責任有限公司)	The PRC	RMB55million	80%	80%	Manufacture, sale and distribution of pharmaceutical products
Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd.*# ("Zhongsheng Jinyu") (北京中生金域診斷技術有限公司)	The PRC	RMB2.3 million	51%	51%	Manufacture, sale and distribution of in-vitro diagnostic reagent products
BioTrand Incorporation*# ("BioTrand") (北京百川飛虹生物科技有限公司)	The PRC	RMB10 million	50%	90%	Biotechnology research
Biosino-AgiAccu Bio-Technology Co., Ltd.*# ("AgiAccu") (北京中生朗捷生物技術有限公司)	The PRC	RMB1.6 million	56.25%	56.25%	Research, development, manufacture and distribution of biological reagents

Notes to Financial Statements

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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 capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principle activities
Mian Yang Hi-tech Industrial Park Zhongke Bioengineering Co., Ltd.*# (綿陽高新區中科生物工程有限公司)	The PRC	RMB8.5 million/ RMB10.5 million	33.34%	63.34%	Development, manufacture and distribution of enzyme and biological products
Mian Yang Hi-tech Industrial Park KeLi Bioengineering Co., Ltd.*# (綿陽高新區科力生物醫藥有限公司)	The PRC	RMB0.5 million	–	44.34%†	Development, manufacture and distribution of enzyme and biological products

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

* These entities are registered as limited liability companies under PRC Law.

Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Unlisted equity investment, at cost	–	–	–	900
Share of net assets	–	268	–	–
	–	268	–	900

The Group and the Company's interest in a jointly-controlled entity as at 31December 2007 represented the 45% equity interests in Beijing Zhongsheng KeWei Medical Technology Co., Ltd. ("KeWei"). In December 2008, the Company's equity interest in KeWei decreased from 45% to 24.18% due to additional capital contribution made by the new shareholders of Kewei and the Company ceased to have joint control over Kewei thereafter. The Company has accounted for this investment as an associate (note 21) since then.

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31 December 2008

21. INTERESTS IN ASSOCIATES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investment, at cost	**–**	–	**5,100**	–
Share of net assets	**3,936**	–	**–**	–
	3,936	–	**5,100**	–

Particulars of the associates, which are indirectly held by the Company, are as follows:

Company name	**Place of incorporation/ registration**	**Nominal value of paid-up capital/ registered capital**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Beijing Zhongsheng KeWei Medical Technology Co., Ltd.* ("KeWei") *(note 20)* (北京中生科維醫療科技有限公司)	PRC	RMB4.55 million	24.18%	Development, manufacture and distribution of clinical instruments
Biosino Lab Tech. Inc.* ("BioLab") *(note 36)* (北京中生可利檢驗醫學技術有限責任公司)	PRC	RMB9 million	42.22%	Medical science research

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The following tables illustrates the summarised financial information of the Group's associates:

	2008	2007
	RMB'000	RMB'000
Assets	**10,576**	–
Liabilities	**816**	–
Revenues	**469**	–
Losses	**(1,451)**	–

22. LONG-TERM DEPOSITS

Long-term deposits as at 31 December 2008 are deposits for the purchases of plant and machinery.

Notes to Financial Statements

31 December 2008

23. INVENTORIES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**9,174**	8,661	**6,878**	6,445
Work in progress	**1,217**	1,623	**347**	322
Semi-finished goods	**4,955**	2,459	**1,653**	1,119
Finished goods	**12,421**	10,704	**10,129**	8,448
Finished goods on consignment	**702**	1,302	**–**	–
	28,469	24,749	**19,007**	16,334

The net amount of provision or reversal 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.

24. TRADE AND BILLS RECEIVABLES

Except for certain established customers of the Group who have been granted with payment terms ranging from two to four 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 the invoice date, is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**32,623**	25,917	**15,581**	11,431
4 to 6 months	**4,271**	4,938	**1,127**	1,963
7 to 12 months	**1,104**	5,854	**44**	3,920
1 to 2 years	**1,562**	1,016	**414**	28
Over 2 years	**961**	1,506	**51**	571
	40,521	39,231	**17,217**	17,913
Less: Impairment *(note (a))*	**(3,064)**	(3,549)	**(1,005)**	(1,549)
	37,457	35,682	**16,212**	16,364
Portion classified as current assets	**(37,047)**	(33,716)	**(15,802)**	(14,398)
Non-current portion	**410**	1,966	**410**	1,966

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24. TRADE AND BILLS RECEIVABLES *(continued)*

Notes:

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**3,549**	2,153	**1,549**	603
Impairment losses recognised *(note 6)*	**350**	1,396	**–**	946
Impairment loss reversed	**(835)**	–	**(544)**	–
At 31 December	**3,064**	3,549	**1,005**	1,549

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB2,988,000 (2007: RMB3,405,000) with a carrying amount of RMB4,525,000 (2007: RMB3,664,000). 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.

(b) The 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**35,884**	34,131	**14,691**	14,879
Less than 1 month past due	**1,380**	1,103	**1,370**	1,092
1 to 3 months past due	**193**	448	**151**	393
	37,457	35,682	**16,212**	16,364

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.

Notes to Financial Statements

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25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2008	2007	**2008**	2007
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Advance to suppliers		**1,955**	1,464	**–**	–
Prepayments		**–**	94	**–**	–
Deposits and other debtors		**4,859**	6,147	**3,042**	4,155
Due from a shareholder	*26*	**–**	76	**–**	–
Due from related companies	*26*	**284**	155	**150**	–
		7,098	7,936	**3,192**	4,155

Note:

Included in the Group's and the Company's other debtors as at 31 December 2008 were cash advances of RMB1,500,000 (2007: RMB1,500,000) 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 these customers. The cash advances are interest-free and fully repayable within one year from the date of advances, and are guaranteed by the legal representative and the shareholders of these customers.

26. DUE FROM/TO A SHAREHOLDER AND RELATED COMPANIES

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

Included in the amount due to a shareholder as at 31 December 2008 is the accrued technical service fees of RMB500,000 (2007: RMB1,000,000) for the year ended 31 December 2008 payable to the Institute of Biophysics of the Chinese Academy of Sciences (the "IBP"), the substantial shareholder of the Company, for the rights to use the technical know-how from the IBP. Further details of the technical service fee arrangements are set out in note 40(c) to the financial statements.

27. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investments, at market value, in PRC	**10,209**	–	**10,209**	–

The Group's equity investments as at 31 December 2008 were held for trading investments and were measured at quoted market prices at the balance sheet date.

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28. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**85,374**	108,449	**61,120**	80,015
Time deposits	**6,600**	5,800	**–**	–
Cash equivalents *(Note (b))*	**2**	34,472	**2**	34,472
	91,976	148,721	**61,122**	114,487
Less: Time deposits with maturity over three months	**(6,600)**	–	**–**	–
Cash and cash equivalents	**85,376**	148,721	**61,122**	114,487

Notes:

(a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between 1 and 12 months and earns interest at the applicable short-term time deposit rate. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB83,106,000 (2007: RMB144,827,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash equivalents of the Group and the Company as at 31 December 2008 and 2007 represented funds deposited in a security trading house established in the PRC. The deposit is not restricted as to its 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 time deposits approximate to their fair values.

29. ISSUED CAPITAL

	2008	2007
	RMB'000	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

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30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 44 of the financial statements.

(b) Company

	Notes	Capital reserves# RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 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(a)*	–	1,659	(1,659)	–
Proposed final 2007 dividend	*13*	–	–	(10,002)	(10,002)
At 31 December 2007 and 1 January 2008		18,361	17,734	18,586	54,681
Profit for the year		–	–	20,868	20,868
Total income and expense for the year		–	–	20,868	20,868
Transfer to statutory reserves	*12(a)*	–	3,456*	(3,456)*	–
Proposed final 2008 dividend	*13*	–	–	(10,002)	(10,002)
At 31 December 2008		18,361	21,190	25,996	65,547

\# 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 the share capital upon approval.

* The amount transferred from retained profits to the statutory reserves of RMB3,456,000 during the year ended 31 December 2008 includes i) the statutory surplus reserve amounting to RMB1,909,000 (2007: RMB1,659,000); and ii) an amount of RMB1,547,000 (2007: Nil) which attributable to government grant income with a condition of setting aside the relevant grant amounts in statutory reserves.

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31. BANK BORROWINGS

Group	Notes	2008 Effective interest rate (%)	2008 Maturity	2008 RMB'000	2007 Effective interest rate (%)	2007 Maturity	2007 RMB'000
Current:							
Bank loans, secured	*(a) and (b)*	**6.93-7.56**	**2009**	**40,000**	6.49	2008	49,792
Non-current:							
Bank loans, secured	*(b)*			**–**	6.11	2009	40,000
				40,000			89,792

Company	Notes	2008 Effective interest rate (%)	2008 Maturity	2008 RMB'000	2007 Effective interest rate (%)	2007 Maturity	2007 RMB'000
Current:							
Bank loans, secured	*(b)*	**7.56**	**2009**	**30,000**	6.11	2008	40,000
Non-current:							
Bank loans, secured	*(b)*			**–**	6.11	2009	40,000
				30,000			80,000

	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Bank loans repayable:				
Within one year	**40,000**	49,792	**30,000**	40,000
In the second year	**–**	40,000	**–**	40,000
In the third to fifth years, inclusive	**–**	–	**–**	–
	40,000	89,792	**30,000**	80,000

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31. 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 the PRC and the buildings erected thereon with an aggregate carrying value of approximately RMB29,834,000 (2007: RMB31,289,000) 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 the PRC and the building erected thereon with an aggregate carrying value of approximately RMB29,272,000 (2007: RMB23,789,000) at the balance sheet date (notes 15 and 16).

Bank borrowings are denominated in Renminbi and bear interest at floating interest rates. The carrying amounts of these loans approximate to their fair values.

32. 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 utilised for research and development activities.

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32. DEFERRED INCOME *(continued)*

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

Government authority	Project name	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
中國人民共和國財政部	863診斷試關鍵原料	**1,030**	765	**142**	–
中國人民共和國財政部	863生化診斷試劑	**1,927**	2,116	**1,709**	1,897
中國人民共和國財政部	863診斷試劑和標準物質參考品	**64**	270	**64**	270
北京北大未名生物工程集團	863促胰島素分泌肽和醋酸奥曲肽	**120**	–	**–**	–
北京科學技術委員會	抗巨噬細胞遷移抑制因數	**–**	463	**–**	–
北京生物技術和新醫藥產業促進中心	臨床生化診斷試劑	**917**	–	**917**	–
北京市工業促進局	蛋白質藥物產業化專案	**2,000**	2,000	**–**	–
北京市海澱區財政局	蛋白質多膠藥物孵化支撐平臺項目	**2,963**	3,315	**–**	–
北京市中關村科技園區管理委員會	臨床生化診斷試劑	**780**	–	**780**	–
國家發展和改革委員會	診斷試劑用甘油激酶，乳酸脫氫酶	**3,000**	–	**–**	–
中華人民共和國科學技術部	轉氨酶檢驗儀器及試劑	**544**	–	**–**	–
科技部中小企技術創新－基金管理中心	診斷試劑用甘油脫氫酶	**300**	300	**–**	–
綿陽高新區科技局	診斷試劑用甘油激酶，乳酸脫氫酶	**100**	–	**–**	–
綿陽市科學技術局	診斷試劑用甘油激酶，乳酸脫氫酶	**160**	–	**–**	–
中關村科技園管理委員會	尿半乳糖測試定試劑盒	**252**	252	**–**	–
		14,157	9,481	**3,612**	2,167

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33. TRADE PAYABLES

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**6,058**	6,767	**3,253**	5,153
4 to 6 months	**295**	–	**41**	–
7 to 12 months	**364**	353	**–**	–
1 to 2 years	**54**	179	**29**	58
Over 2 years	**152**	65	**73**	16
	6,923	7,364	**3,396**	5,227

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

34. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Accruals		**8,182**	8,041	**7,054**	6,844
Other liabilities	*(a) and (b)*	**12,710**	23,307	**3,102**	2,560
Due to a shareholder	*26*	**936**	1,239	**500**	1,000
Due to a related company	26	**–**	300	**–**	–
		21,828	32,887	**10,656**	10,404
Portion classified as current liabilities		**(21,828)**	(31,087)	**(10,656)**	(10,404)
Non-current portion	*(a)*	**–**	1,800	**–**	–

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34. OTHER PAYABLES AND ACCRUALS *(continued)*

Notes:

(a) Included in the Group's other liabilities as at 31 December 2007 and 31 December 2008 were government funds of RMB3 million reveived from the Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會, the "BMCDR"). The government assistances were advanced to Baiao Pharmaceuticals, a 80%-owned subsidiary of the Company, for the construction of a production base at the Changping District in Beijing, the PRC, in 2007. In the opinion of the directors, the funds are repayable by Baiao Pharmaceuticals to the government.

As at 31 December 2008 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 government funds advanced from the BMCDR. Accordingly, the whole balance of RMB3 million is classified as a current liability as at 31 December 2008.

(b) Included in the Group's other liabilities as at 31 December 2008 were payables to China High and New Investment Corporation (中國高新投資集團公司) of RMB2 million, which are due 2009.

35. TAXES PAYABLE

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC corporate income tax payable	**663**	3,749	**192**	2,509
Value-added tax payable	**2,761**	2,044	**1,735**	1,325
Others	**454**	363	**258**	204
	3,878	6,156	**2,185**	4,038

Notes to Financial Statements

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36. DISPOSAL OF A SUBSIDIARY

	RMB'000
Net assets disposed of:	
Property, plant and equipment *(note 15)*	228
Inventories	70
Prepayments, deposits and other receivables	9
Cash and bank balances	5,293
Tax payable	(3)
Accruals and other payables	(4)
Deferred income	(200)
Minority interests	(2,379)
	3,014
Transferred to an investment in an associate	(3,206)
Gain on disposal of a subsidiary *(note 5)*	192

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

	2008 **RMB'000**
Cash consideration	**–**
Cash and cash balances disposed of	**(5,293)**
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(5,293)**

On 1 September 2008, the Group's equity interest in BioLab, a former subsidiary of the Group, decreased from 55.88% to 42.22%, as a result of the additional capital injection by a new shareholder. The Group has accounted for the 42.22% equity investment in BioLab as an investment in an associate (note 21) since 1 September 2008.

37. CONTINGENT LIABILITIES

As at 31 December 2008, the Company had contingent liabilities in respect of a guarantee in favour of China High and New Investment Corporation for an amount of RMB2 million (2007: RMB4 million) due from Baiao Pharmaceuticals.

Save as disclosed above, the Group and the Company did not have any significant contingent liabilities as at 31 December 2008 (2007: Nil).

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38. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in note 31 to the financial statements.

39. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year	**1,539**	982
In the second to fifth years, inclusive	**561**	883
	2,100	1,865

The Company did not have any operating lease commitments as at 31 December 2008 (2007: Nil).

40. COMMITMENTS

(a) In addition to the operating lease commitments as detailed in note 39 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	
	2008	2007
	RMB'000	RMB'000
Authorised, but not contracted for	**–**	592
Contracted, but not provided for	**–**	3,073
	–	3,665

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40. COMMITMENTS *(continued)*

(b) Pursuant to a research and development cooperation agreement (the "Research and Development Cooperation Agreement") dated 9 August 2004 entered into between the Group and the IBP, a shareholder of the Company, both parties will jointly engage in a pre-clinical research project for the development of a chemical drug, namely, Alprostadil for Injection. Upon the completion of such pre-clinical research, the Group will have the right to obtain the ownership of the relevant clinical testing certificate and the production license to be issued thereafter by the State Food and Drug Administration of the PRC, while the Group would have to complete the co-development of the pre-clinical research according to the Research and Development Cooperation Agreement. The assessed market value of the clinical research rights is subject to a cap of RMB5,000,000. Therefore, the maximum amount of consideration that the Group would pay to the IBP to acquire the clinical research rights would be RMB2,500,000.

(c) On 9 December 2004, the IBP, a shareholder of the Company, 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. As at 31 December 2008, the technical service fees payable by the Group of RMB500,000 (31 December 2007: RMB1,000,000) were included in the amount due to a shareholder (note 26).

41. RELATED PARTY TRANSACTIONS

(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:

		Group	
		2008	2007
	Notes	**RMB'000**	RMB'000
Operating lease rentals:			
– incurred by Zhongsheng Jinyu	*(i)*	**306**	184
– incurred by BioTrand	*(ii)*	**311**	86
Technical service fee	*(iii)*	**500**	500
Research and development service fee to the IBP	*(iv)*	**–**	300
Purchase of medical instruments from IBP	*(v)*	**–**	791

Notes:

(i) The office premises of Zhongsheng Jinyu, a subsidiary of the Group, were leased from Beijing Enterprises Holdings High-Tech Development Co.,Ltd. ("BEHT"), a shareholder of the Company. The rental area and rentals are negotiated 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.

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41. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: (continued)

(ii) The office premises of BioTrand, a subsidiary of the Group, were leased from the IBP. The rental area and rentals are negotiated 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.

(iii) Details of the technical service fee are set out in note 40 (c) to the financial statements.

(iv) On 31 January 2007, the Group and the IBP entered into a supplementary agreement namely the "Research and Development Cooperation Agreement", details of which are set out in note 40 (b) of this financial statements. Pursuant to this supplementary agreement, the IBP will carry out a research and development subphase of the project for the development of Alprostadil for Injection, while the Group agreed to pay RMB400,000 to the IBP. During 2007, RMB300,000 was paid while the remaining portion was payable upon the completion of the research and development subphase of the project. The research and development subphase of the project was yet to complete as at 31 December 2008.

(v) 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 mutually agreed by both parties. As at 31 December 2007, all of the equipment had been delivered and put into use.

(b) The amounts due from/to a shareholder and a related company are set out in note 26 to the financial statements.

(c) Compensation of key management personnel of the Group

	2008 **RMB'000**	2007 RMB'000
Short-term employee benefits	**5,280**	5,318
Post-employment benefits	**70**	64
Total compensation paid to key management personnel	**5,350**	5,382

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

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42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

Financial assets

	2008			2007
	Held for trading RMB'000	**Loans and receivables RMB'000**	**Total RMB'000**	Loans and receivables RMB'000
Trade and bills receivables	**–**	**37,457**	**37,457**	35,682
Financial assets included in prepayments, deposits and other receivables	**–**	**4,855**	**4,855**	6,146
Equity investments at fair value through profit or loss	**10,209**	**–**	**10,209**	–
Time deposits	**–**	**6,600**	**6,600**	–
Cash and cash equivalents	**–**	**85,376**	**85,376**	148,721
	10,209	**134,288**	**144,497**	190,549

Financial liabilities

	2008 Financial liabilities at amortised cost RMB'000	2007 Financial liabilities at amortised cost RMB'000
Trade payables	**6,923**	7,364
Financial liabilities included in other payables and accruals	**11,967**	20,461
Interest-bearing bank borrowings	**40,000**	89,792
	58,890	117,617

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42. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	2008 Held for trading RMB'000	2008 Loans and receivables RMB'000	2008 Total RMB'000	2007 Loans and receivables RMB'000
Trade and bills receivables	–	16,212	16,212	16,364
Financial assets included in prepayments, deposits and other receivables	–	3,042	3,042	4,155
Equity investments at fair value through profit or loss	10,209	–	10,209	–
Time deposits	–	–	–	–
Cash and cash equivalents	–	61,122	61,122	114,487
	10,209	80,376	90,585	135,006

Financial liabilities

	2008 Financial liabilities at amortised cost RMB'000	2007 Financial liabilities at amortised cost RMB'000
Trade payables	3,396	5,227
Financial liabilities included in other payables and accruals	2,581	2,039
Interest-bearing bank borrowings	30,000	80,000
	35,977	87,266

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

In addition, the Group has participated in trading transactions of certain listed securities on the Shenzhen or Shanghai stock exchanges. The directors were of the view that the investment in shares of the PRC listed companies could provide a better return and higher flexibility to the Group when it was unable to identify any potential investment opportunities in the pharmaceutical-related business.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Interest rate risk

At 31 December 2008, the bank loans of the Group comprised both floating rate and fixed rate debts. In the opinion of the directors, the Group has no significant concentration of interest rate risk other than the Group's bank borrowings disclosed in note 31.

(b) Foreign currency risk

The Group's businesses are located in the PRC and all transactions are conducted in RMB, except that the Company occasionally purchases equipment from overseas countries for resale in the PRC 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 through foreign currencies were not significant. Fluctuations of the exchange rates of RMB against foreign currencies are not expected to have any significant impact on the results of the Group.

(c) Credit risk

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

The carrying amounts of trade receivables, other receivables and cash included in the 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.

(d) 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 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 is set out in notes 31 to the financial statements.

Notes to Financial Statements

31 December 2008

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

(e) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as trading equity investments (note 27) as at 31 December 2008. The Group's listed investments are listed on the Shenzhen and Shanghai stock exchanges and are valued at quoted market prices at the balance sheet date.

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

	Carrying amount of equity investments RMB'000	Increase/ decrease in profit before tax RMB'000
2008		
Investments listed in:		
Shanghai – Held-for-trading	10,187	1,019
Shenzhen – Held-for-trading	22	2
	10,209	1,021

(f) Capital management

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business and maximise shareholder's value. The Group is not subject to any externally imposed capital requirements.

The Group has an annual capital plan which is prepared and approved by the board of directors with the objective of maintaining the optimal amount of capital and bank borrowings structure. The Group manages its own capital within the context of the approved annual capital plan, which determines the level of asset growth and the optimal amount and mix of capital and bank borrowings required to support its planned businesses growth.

Notes to Financial Statements

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44. POST BALANCE SHEET EVENTS

(a) Pursuant to the Company's announcement dated 9 March 2009, the Company has entered into a corporative framework agreement with parties, including (i) the People's Government of Nanchang City of Jiangxi Province; (ii) the People's Government of the Nanchang Xian; (iii) the Institute of Biophysics of Chinese Academy of Sciences, a shareholder of the Company; (iv) Legend Holdings Ltd.; and (v) the Administrative Bureau of Chinese Academy of Sciences, in relation to a project to establish a Biological Industrial Park in Jiangxi Province and the possible acquisition of certain equity interests in the target companies. The target companies include Jiangxi State Pharmaceuticals Co. Ltd. and Jiangxi Pharmaceuticals Co. Ltd. which are principally engaged in the production, research and development of pharmaceutical products in the PRC. The agreement and the relevant discussions are in a preliminary stage and therefore may or may not lead to any formal agreement.

(b) Subsequent to the balance sheet date, the Company disposed of a total of 400,000 shares in China Coal Energy Company Limited on the Shanghai Stock Exchange at a total consideration of approximately RMB3,450,000 (excluding stamp duty and related expenses). The net gain on these disposal transactions amounted to RMB780,000.

Saved as disclosed above, the Group did not have any significant events taking place subsequent to 31 December 2008.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2009.

Five Year Financial Summary

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 2008, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**200,591**	174,672	147,806	135,432	121,989
PROFIT BEFORE TAX	**31,079**	29,124	27,730	30,447	29,961
TAX	**(5,156)**	(7,126)	(6,667)	(3,921)	(4,053)
PROFIT FOR THE YEAR	**25,923**	21,998	21,063	26,526	25,908
ATTRIBUTABLE TO:					
Equity holders of the parent	**23,955**	19,929	20,151	24,352	23,834
Minority interests	**1,968**	2,069	912	2,174	2,074
	25,923	21,998	21,063	26,526	25,908

ASSETS, LIABILITIES AND EQUITY

	31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**304,120**	348,672	336,772	211,057	179,618
TOTAL LIABILITIES	**(86,786)**	(145,680)	(147,048)	(88,114)	(63,601)
NET ASSETS	**217,334**	202,992	189,724	122,943	116,017
REPRESENTED BY:					
EQUITY ATTRIBUTABLE TO					
EQUITY HOLDERS OF THE PARENT	**194,980**	181,027	170,852	112,660	106,308
MINORITY INTERESTS	**22,354**	21,965	18,872	10,283	9,709
TOTAL EQUITY	**217,334**	202,992	189,724	122,943	116,017