ANNUAL REPORT **2010**

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)

* For identification purpose only

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

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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 or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

PRC OFFICE

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

HONG KONG OFFICE

66th 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 Director
Dr. Gao Guang Xia

Executive Directors
Dr. Wang Lin
Mr. Hou Quanmin

Non-executive Directors
Mr. Yao Fang
Mr. Qiao Zhicheng
Mr. Zuo Zhihui
Mr. Wang Fu Gen

Independent Non-executive Directors
Dr. Rao Yi
Dr. Hu Canwu Kevin
Mr. John Wong Yik Chung
(Appointed on 10 March 2011 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company)

SUPERVISORS

Dr. He Rongqiao
Mr. Shao Yimin
Ms. Guan Xiaohui

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 H SHARES

Place of listing:	The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock code:	8247
Number of H shares issued:	64,286,143 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" or "China"). The Company and its subsidiaries (collectively referred to as the "Group") are 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. Our second largest shareholder is Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司) ("Fosun Pharmaceutical", together with its subsidiaries, the "Fosun Pharmaceutical Group"), a PRC joint stock company whose A shares are listed on the Shanghai Stock Exchange and which is principally engaged in the manufacturing, research and development, wholesaling and retailing of pharmaceutical products. Our third largest shareholder is Beijing Enterprises Holdings Limited ("Beijing Enterprises"), a Hong Kong company whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and which together with its subsidiaries are utilities conglomerate with urban energy services as core business.

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.

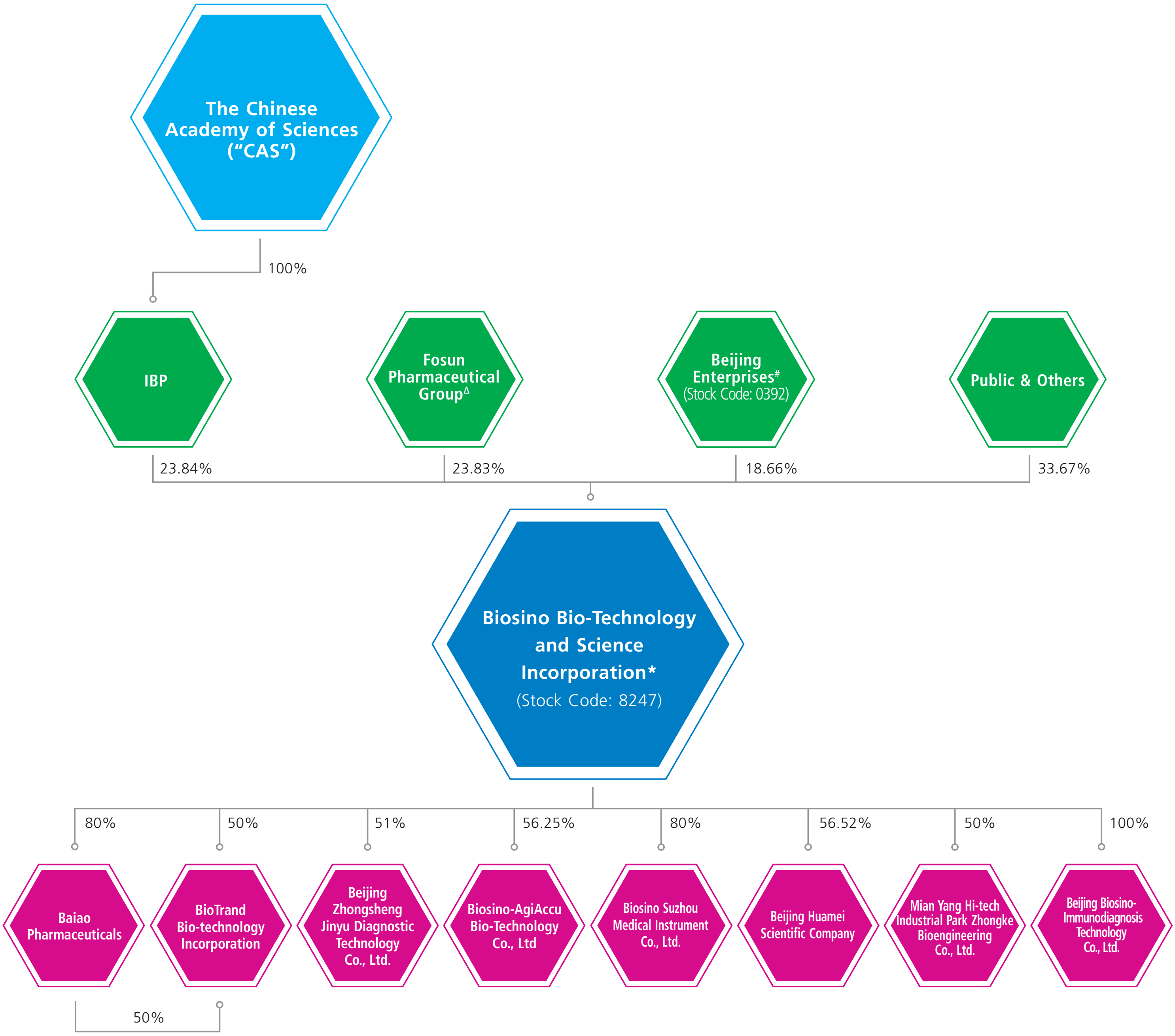
The Group ranked No. 1 in the conventional chemistry reagent market in China. Lumbrokinase capsule is included in the Drugs Catalogue of National Basic Medical Insurance (國家基本醫療保險藥品目錄) and Reimbursable Drugs Catalogue of Public Medical and Labour Insurance in Beijing Municipality (北京市公費醫療、勞保醫療用藥報銷範圍), 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 the people, for the people; advocating innovation; unquestionable quality pursuing perfection; genuine craftsmanship and lawful 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 since 27 February 2006.

GROUP STRUCTURE

As at 18 March 2011



* The H shares of Biosino Bio-Technology and Science Incorporation are listed on the GEM

\# The Shares of Beijing Enterprises are listed on the main board of the Stock Exchange

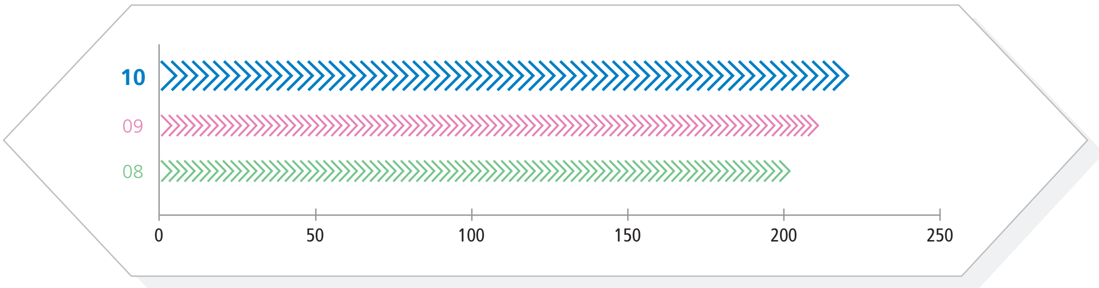
Δ The 23.83% shareholding is held by the Fosun Pharmaceutical Group via Shanghai Fosun Pingyao Investment Management Company Limited (上海復星平耀投資管理有限公司) and Fosun Industrial Co., Limited (復星實業(香港)有限公司), both being wholly-owned subsidiaries of Fosun Pharmaceutical, as to 18.66% and 5.16% respectively.

FINANCIAL HIGHLIGHTS

- Revenue for the year kept growing to RMB229 million, representing an increase of 8.1% from that of last year.
- Profit attributable to owners of the parent for the year amounted to RMB27.65 million, representing an increase of 4.3% from that of last year.
- Equity attributable to owners of the parent amounted to RMB288 million, representing an increase of 36.2% from that of last year.

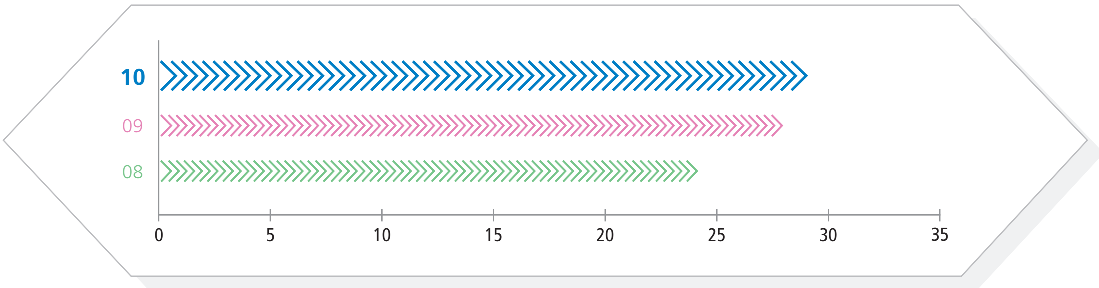
1. REVENUE FOR THE YEAR

(RMB million)



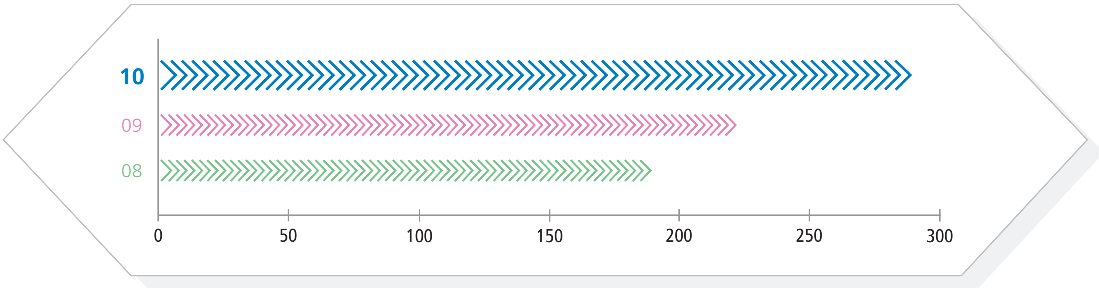
2. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

(RMB million)



3. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

(RMB million)

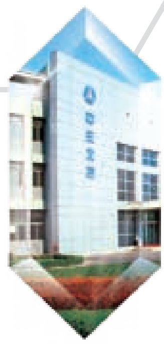


COOPERATIVE FOR
BETTER RESULTS

Dear shareholders,

With great pleasure and on behalf of the board of directors (the "Board") of Biosino Bio-Technology and Science Incorporation, I hereby present to you the annual report of Biosino Bio-Technology and Science Incorporation and its subsidiaries (the "Group") for the year ended 31 December 2010.

Wu Lebin
Chairman of the Board



CHAIRMAN'S STATEMENT

To uphold the principle of "technologies enrich living standards", the Group advocates the corporate spirit of "integrity, collaboration, dedication, innovation"; continues to strive for the stable 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 continues to explore actively new commercial patterns, to expand the industry chain as well as to improve the industry system, so as to increase our core competitiveness.

During the year, despite the impact caused by the financial turmoil on the medical sector, 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 new markets. The Group achieved the operating missions assigned by the Board and achieved continuing growth and sound development.

FINANCIAL RESULTS

During the year 2010, the revenue of the Group was RMB229 million, representing an increase of 8.1% as compared with last year. Profit for the year was RMB29.37 million. Profit attributable to owners of the parent was RMB27.65 million, representing an increase of 4.3% as compared with last year. Cash and cash equivalents at the balance sheet date were approximately RMB162 million, showing a relatively strong cash position of the Group.

Revenue from the sale of in-vitro diagnostic reagent products for the year grew by 16.7% from RMB144 million over the same period last year to approximately RMB168 million, accounting for 73.4% of the total revenue. Revenue from the sale of pharmaceutical products was similar to that of last year and amounted to approximately RMB61.07 million, accounting for 26.6% of the total revenue. Research and development cost for the year amounted to approximately RMB17.66 million, accounting for 7.7% of total revenue and reached a relatively high level.

DIVIDENDS

In return for the support of shareholders to the Group, and taking into account of the Group's financial condition, cash flow, operating and capital requirements as well as the requirements for sustainable business development in the future, the Board recommended the payment of a final dividend of RMB0.1 per share for the financial year ended 31 December 2010. 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. During the year, there was no arrangement under which a shareholder has waived or agreed to waive any dividends.

BUSINESS REVIEW

In 2010, the Group achieved the operating targets assigned by the Board and completed the placing of new H shares on the GEM, bringing in a new shareholder with great influences in the fields of medical and clinical diagnostic reagents. The Group further improved its strength by acquiring a banking facility of RMB100 million from Bank of Jiangsu. In 2010, the Group engaged in the new area of immune diagnostic reagents by obtaining the registration certificates for immune products, and has identified appropriate projects in molecular diagnostics with the project cooperation and application procedures undergoing.

During the reporting period, due to the impact of various internal and external factors, the growth in profit attributable to owners of the parent was lowered on a year-on-year basis. Revenue from in-vitro diagnostic reagent business increased by 16.7% to RMB168 million, a slight increase when compared with last year. In addition, Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd. ("Zhongsheng Jinyu"), a subsidiary of the Group, recorded an increase in revenue of 21.4%. During the reporting period, the benefit from the Group's previous efforts in research and development of new products started to show, outstanding results were achieved in the areas of research and development, existing product improvement and new product launching.

During the reporting period, Serum Cystatin C Assay Kit and Fibrinogen Assay Kit have obtained the registration certificates for medical instruments. "TORCH" products have obtained the registration certificates and entered into production stage, marking the end of the Group's over 20-year history where we only engaged in bio-chemistry diagnostic reagents and formally entered into the immune diagnostic area. The Group obtained the registration certificates for another 25 new products and put them into production. These new products include 21 normal bio-chemistry diagnostic projects and their related calibrator/quality control. During the reporting period, the Group also applied for two invention patents: N-Acetyl-1-adamantanamine Assay Kit for tumor assay and the testing method for Immunoturbidimetric HP in serum and the related assay kit.

During the reporting period, the international business of the Group expanded effectively, with the Group's diagnostic reagent products selling in 32 countries. It is expected that there will be greater room for expansion in the international business of the Group.

PROSPECTS

With the significant progress in national medical system reform, continuous enhancement in medical security, gradual improvement in new rural cooperative medical system as well as introduction of related industry policies, the market for in-vitro diagnostic reagents will grow continuously. Disease prevention, as one of the key concerns of medical system reform, provides new opportunities for diagnostic reagents that focus on prevention.

In 2010, the Group completed the H shares placing, bringing in Fosun Pharmaceutical Group as a new shareholder which is influential in the fields of medical and medical circulation. The proceeds raised will be applied for developing new products including diagnostic reagents and testing apparatuses, expanding market network and building R&D system, which will in turn provide the Group with new profit growth opportunities in the coming years. The Group will also seize the opportunities in the medical industry in China, particularly those in the fast growing medical market for the middle class; overcome challenges to strengthen our in-vitro diagnostic ("IVD") reagent products and drugs, in response to the self innovation concept advocated by the government.

Looking forward, the Board is confident in turning the Group into a leading enterprise engaging in the health enhancing protein business with enforceable intellectual property rights and international competitive edges, 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.

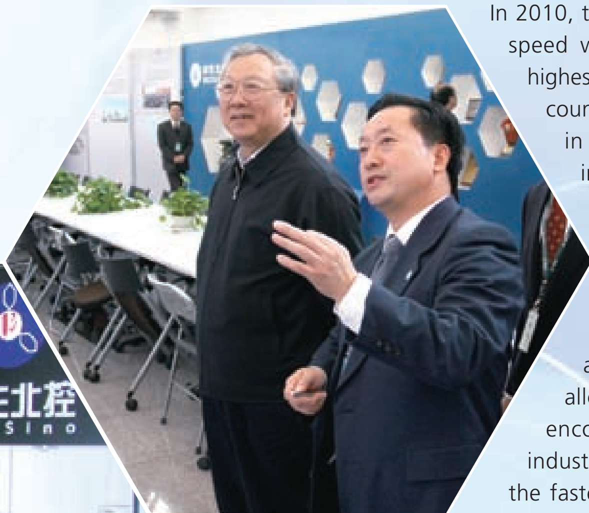
By order of the Board

Wu Lebin
Chairman

Beijing, the People's Republic of China
18 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT



In 2010, the PRC maintained its economic growth at a fast speed with its economic aggregate being the second highest in the world, and shifted gradually to a consuming country while still being a large manufacturer. Changes in macro-environment have resulted in complex impact on every industry and increased demand upon enterprises.

With the significant progress in national medical system reform and the development of the society and economy, the government and the community continue to increase resources allocated to medical affairs, and new policies also encourage social capital to flow into the medical industry. In-vitro diagnostic ("IVD") industry is one of the fastest growing industries in the PRC. As the capital market is active, the industry shuffle accelerates. As the market expanded, market competition intensified and change in product structure has happened. With more and more competitors joining the market, enterprises are at the same time faced with pressures in terms of product quality enhancement and price reduction. Under this condition, during 2010, the Group has identified the goal of "Committed to Better Results" and continued to promote the performance-driven culture. Leveraged on its solid business foundation and adjusted operating philosophies, we strived for growth in face of adversity and has attained further achievement in manufacturing operation and culture development. In 2010, "Biosino Bio-Technology and Science Incorporation" gained the reputation of famous trademark in Beijing. Two government projects undertaken by the Group were completed successfully and the inspections were approved. The Group also applied for two invention patents. "TORCH" immune diagnostic reagents have obtained the registration certificate and entered into production stage, which fully shows the Group's capability of self research, development and innovation.

BUSINESS REVIEW

REVENUE

During 2010, despite many negative impacts on the industry which are caused by the financial turmoil, the Group actively adjusted corresponding strategies so that each business segment maintained stable performance.

During the reporting period, due to the impact of various internal and external factors, the growth in profit attributable to owners of the parent of the Group was lowered on a year-on-year basis.

Revenue from in-vitro diagnostic reagent business increased by 16.7% to RMB168 million, a slight increase when compared with last year. In addition, Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd. ("Zhongsheng Jinyu"), a subsidiary of the Group, recorded an increase in revenue of 21.4%.

RESEARCH AND DEVELOPMENT

During the reporting period, the benefit from the Group's previous efforts in research and development of new products started to show, outstanding results were achieved in research and development, existing product improvement and new product launching. During the reporting period, Serum Cystatin C Assay Kit and Fibrinogen Assay Kit have obtained the registration certificates for medical instruments. "TORCH" products have obtained the registration certificates and entered into production stage, marking the end of the Group's over 20-year history where we only engaged in bio-chemistry diagnostic reagents and its formal entry into the immune diagnostic area. The Group has obtained the registration certificates for another 25 new products and put them into production. These new products include 21 normal bio-chemistry diagnostic projects and their related calibrator/quality control. During the reporting period, the Group also applied for two invention patents: N-Acetyl-1-adamantanamine Assay Kit for tumor assay and the testing method for Immunoturbidimetric HP in serum and the related assay kit.

Total research and development expenses for the year amounted to RMB17.66 million, representing an increase of 8.5% as compared with that of last year.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

During the reporting period, the profit attributable to owners of the parent was RMB27.65 million, representing an increase of 4.3% from that of last year.

PRODUCTION FACILITIES

The Group commenced the construction of "No.2 Plant Complex of Biosino Bio-Technology and Science Incorporation" in 2010 with the approval of relevant government authorities. The project covers a total area of 24,783 square meters with gross floor area of 5,000 square meters (with five storeys above the ground), which will house the production facilities for diagnostic reagents, comprising warehouse, workshops, laboratories and offices. The annual capacity of the production line of molecular diagnostic reagents is 100 million doses with the estimated total investment amounts to approximately RMB20 million, this will further expand the Group's production capacities.

PROSPECTS AND FUTURE OUTLOOK

With the development of the PRC's economy, gearing up of progress in medical system reform, increasing emphasis and resources placed on medical affairs, the medical industry in the PRC will enter into a new era of growth. This year, the market sentiment and business environment of the industry improved further. The introduction of new policies related to medical system reform has brought positive news to the medical industry. We believe the medical industry will remain one of the fastest growing industries in the PRC.

Looking forward, the Board is confident in turning the Group into a leading enterprise engaging in the health enhancing protein business with enforceable intellectual property rights and international competitive edges. Since its listing, benefits reaped from the Group's manufacturing system development, market network development and R&D system development for in-vitro diagnostic reagents have emerged gradually. The Group will seize the opportunities in the medical industry in China, particularly those in the fast growing medical market for the middle class; overcome challenges to strengthen our in-vitro diagnostic reagent products and drugs, in response to the self innovation concept advocated by the government.

CAPITAL STRUCTURE

During the year, the Company has allotted and issued 31,286,143 H shares at the subscription price of HK$2.36 per H share. Upon the completion of the issue of new H shares, the issued capital and capital reserves of the Company increased by RMB31,286,000 and RMB31,232,000 (net of share issue expenses), respectively.

LIQUIDITY AND FINANCIAL POSITION

Cashflow and Financial Position

	2010 RMB million	2009 RMB million
Cash	**162**	95
Short-term loans	**–**	–
Long-term loans	**–**	–
Net cash	**162**	95
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 balance increased by approximately RMB67 million, which was mainly due to the issue of new H shares in the year.

FOREIGN CURRENCY RISK

The Group's businesses are located in the PRC and all transactions are conducted in RMB, except that the Group occasionally purchases equipment and some In-vitro diagnostic reagent products from overseas countries for resale in the PRC. Certain bank accounts denominated in Hong Kong dollars are placed in Hong Kong for receipt of capital injection from new share subscription as well as payments for miscellaneous expenses such as professional fees incurred in Hong Kong.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2010, the Group's buildings and land use right with the carrying amounts of RMB24,558,000 and RMB3,288,000 respectively were pledged to an independent third party in respect of the debt financing for Baiao Pharmaceuticals.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any significant contingent liabilities.

EMPLOYEES

As at 31 December 2010, the Group had a total of 705 full-time employees (2009: 635 employees) based in Hong Kong and China. The total staff costs of the Group (including the directors' remunerations) for the year ended 31 December 2010 amounted to approximately RMB62.64 million (2009: RMB52.34 million). The Group fixes and reviews the emoluments of its staff and directors base 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 Mainland China and Hong Kong. The directors of the Company believe that employees are one of the most valuable assets of the Group which contributed significantly to the success of the Group. The Group recognises the importance of staff training and hence provides regular training for 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 Mainland 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.

CLOSURE OF REGISTER OF HOLDERS OF H SHARES

The Register of Members of the Company will be closed from 22 April 2011 to 12 May 2011 (both days inclusive) during which no transfer of shares will be registered. In order to qualify for entitlement to the proposed 2010 final dividend and for attending and voting at the forthcoming annual general meeting of the Company to be held on 12 May 2011, all transfers of H shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's H share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 21 April 2011. The final dividend will be payable on or about 18 June 2011.

WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISE SHAREHOLDERS IN RESPECT OF THE PROPOSED 2010 FINAL DIVIDEND

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China", the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" and the "Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management", the Company is required to withhold enterprise income tax at the rate of 10% before distributing the final dividend to non-resident enterprise shareholders whose names appear on the H share register of holders of H shares of the Company on 12 May 2011. Any H shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders and the Company will distribute the final dividend to such non-individual shareholders after withholding a 10% enterprise income tax. The Company will not withhold and pay the income tax in respect of the 2010 final dividend payable to any natural person shareholders whose names appear on the Company's register of holders of H shares of the Company as at 12 May 2011.

If any resident enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") listed on the Company's register of holders of H shares which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, does not desire to have the Company withhold and pay the said 10% enterprise income tax, it shall lodge with Tricor Tengis Limited documents from its governing tax authority confirming that the Company is not required to withhold and pay enterprise income tax in respect of the dividend that it is entitled at or before 4:30 p.m. on 21 April 2011.

The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment of such appropriate enterprise income tax and the Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination, of the status of the shareholders or any disputes over the mechanism of withholding.

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 2010 by establishing a formal and transparent procedures to protect and maximise the interests of owners 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 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.

THE BOARD OF DIRECTORS

During the year of 2010, the Board mainly comprised eleven 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 (except Mr. John Wong Yik Chung) has entered into a service contract with the Company for a term of three years. The Board is mainly accountable to the owners 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 operational 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 internal controls systems and risk management procedures, and compliance with relevant statutory requirements, 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 or her duties effectively and efficiently. There is no relationship among the members of the Board.

During the year of 2010, the chairman kept 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 acts as the president of the Company and is always responsible for the management of the Group's day-to-day operations such as production, operation, and financial management. Another executive director is in charge of the research and technique as well as international relations of the Company. The remaining executive director is responsible for the overall management of Baiao Pharmaceuticals.

Five 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 provided significant opinions and contribution to the development of the Company during the year 2010.

The Company announced on 10 March 2011 that Mr. John Wong Yik Chung was appointed as an independent non-executive director, a member of each of the audit committee and the remuneration committee of the Company subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to replace Mr. Chan Yiu Kwong who resigned as an independent non-executive director, a member of each of the audit committee and remuneration committee of the Company on 10 December 2010. Mr. John Wong Yik Chung is a fellow member of each of the Australian Society of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and fulfills the professional qualification requirements under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

Except as disclosed above, 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 under the GEM Listing Rules. They have professional knowledge and extensive experience in science and technology, medical science and economy, which also conforms with 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 2010, the Board held a total of six meetings, one of which was a regular meeting. The average attendance rate reached 90%. The details of the Board meetings and the attendance rate of directors are as follows:

Date of meeting	Total number of directors	Number of directors present	Attendance rate
6 February 2010	11	8	72%
10 February 2010	11	10	100%
19 March 2010	11	8	72%
12 May 2010	11	11	100%
9 August 2010	11	11	100%
12 November 2010	11	11	100%

Name of directors	Number of meetings attended
Mr. Wu Lebin *(Chairman and Executive director)*	6/6
Dr. Gao Guang Xia *(Vice Chairman and Non-executive director)*	6/6
Dr. Wang Lin *(Executive director)*	6/6
Mr. Hou Quanmin *(Executive director)*	6/6
Mr. Rong Yang *(Non-executive director)*	6/6
Ms. Qin Xuemin *(Non-executive director)*	6/6
Mr. Zhang Xiaohui *(Non-executive director)*	6/6
Mr. Wang Fu Gen *(Non-executive director)*	5/6
Dr. Rao Yi *(Independent non-executive director)*	4/6
Dr. Hu Canwu Kevin *(Independent non-executive director)*	4/6
Mr. Chan Yiu Kwong *(Independent non-executive director)* (resigned on 10 December 2010)	4/6

CHAIRMAN AND EXECUTIVE DIRECTORS

During the year of 2010, 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a model code of conduct for 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 Company for assessing the conduct of directors in their dealings in the securities of the Company. Any violation of this code will be regarded as a violation of the GEM Listing Rules. The Company has confirmed, after making specific enquiries with the directors, the directors have complied with the required standard of dealings as set out in the model code of conduct in relation to securities dealings by directors throughout the year ended 31 December 2010.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in accordance with the Code as set out in Appendix 15 to the GEM Listing Rules. The main duties of the remuneration committee are 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 feasibility of performance-based remuneration.

During the year of 2010, members of the remuneration committee include all independent non-executive directors, Dr. Rao Yi, Dr. Hu Canwu Kevin and Mr. Chan Yiu Kwong (resigned on 10 December 2010), with Dr. Rao Yi as the chairman of the remuneration committee. On 10 March 2011, the Company announced that Mr. John Wong Yik Chung was appointed as an independent non-executive director, a member of each of the audit committee and the remuneration committee of the Company subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to replace Mr. Chan Yiu Kwong who resigned as an independent non-executive director, a member of each of the audit committee and remuneration committee of the Company on 10 December 2010.

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 2010, one remuneration committee meeting was held and the individual attendance of each member is set out below:

Name of directors	Number of meetings attended
Dr. Rao Yi	1/1
Dr. Hu Canwu Kevin	1/1
Mr. Chan Yiu Kwong (resigned on 10 December 2010)	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 Rules, the Board approved the establishment of the audit committee on 10 February 2006 comprising three independent non-executive directors.

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 auditors.

Members of the audit committee posses high sense of responsibilities. They have contributed their times and efforts to ensure efficient operation and objectivity of the Board.

The audit committee meets quarterly to review the reporting of financial statements 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 2010, 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. Rao Yi	4/4
Dr. Hu Canwu Kevin	4/4
Mr. Chan Yiu Kwong (resigned on 10 December 2010)	4/4

The audit committee comprises all independent non-executive directors of the Company, namely Dr. Rao Yi, Dr. Hu Canwu Kevin and Mr. Chan Yiu Kwong (resigned on 10 December 2010), of which Dr. Rao Yi is the Chairman. The Company announced on 10 March 2011 that Mr. John Wong Yik Chung was appointed as an independent non-executive director, a member of each of the audit committee and the remuneration committee of the Company subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to replace Mr. Chan Yiu Kwong who resigned as an independent non-executive director, a member of each of the audit committee and remuneration committee of the Company on 10 December 2010. The audit committee has reviewed the annual results, financial position, internal control and the management issues of the Group for the year ended 31 December 2010.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit services performed by the external auditors, 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 RMB900,000.

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 36.

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.

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 2010.

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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 45.

The directors recommend the payment of a final dividend of RMB0.1 per share in respect of the year to shareholders on the register of members on 12 May 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity of the balance sheet.

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 pages 107 to 108. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's registered and issued share capital during the year are set out in note 28 to the financial statements.

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 29(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Retained profits of the Company, as at 31 December 2010, amounted to approximately RMB54,414,000, of which RMB13,130,000 has been proposed as a final dividend for the year. Details of movements in the reserves of the Company during the year is set out in note 29(b) to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers of RMB55,000,000, accounted for 23.1% of the total sales for the year and sales to the largest customer included therein amounted to 5.4%. Purchases from the Group's five largest suppliers of RMB26,000,000, accounted for 45% of the total purchases for the year and purchases from the largest supplier included therein amounted to 23%. 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 DIRECTOR:

Dr. Gao Guang Xia

EXECUTIVE DIRECTORS:

Dr. Wang Lin
Mr. Hou Quanmin

NON-EXECUTIVE DIRECTORS:

Mr. Rong Yang	(Resigned on 24 January 2011)
Ms. Qin Xuemin	(Resigned on 24 January 2011)
Mr. Zhang Xiaohui	(Resigned on 24 January 2011)
Mr. Wang Fu Gen	
Mr. Yao Fang	(Appointed on 24 January 2011)
Mr. Qiao Zhicheng	(Appointed on 24 January 2011)
Mr. Zuo Zhihui	(Appointed on 24 January 2011)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Rao Yi	
Dr. Hu Canwu Kevin	
Mr. Chan Yiu Kwong	(Resigned on 10 December 2010)
Mr. John Wong Yik Chung	(Appointed on 10 March 2011 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company)

SUPERVISORS:

Dr. He Rongqiao	
Mr. Zhang Lingyong	(Resigned on 24 January 2011)
Mr. Shao Yimin	
Ms. Guan Xiaohui	(Appointed on 24 January 2011)

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 30 to 35 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors (including the independent non-executive directors (except Mr. John Wong Yik Chung) and the supervisors) has entered into a service contract with the Company for a term of three years commencing from various dates of their respective appointments.

Apart from the foregoing, no director or supervisor had entered into or had 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 the annual general meeting. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTEREST IN CONTRACTS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, 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)*	3,500,878	5.22%	2.67%
Mr. Hou Quanmin *(note)*	300,000	0.45%	0.23%
Dr. Wang Lin *(note)*	200,000	0.30%	0.15%

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

Save as disclosed above, as at 31 December 2010, 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 2010.

CONTRACT OF SIGNIFICANCE

The Group has a number of contracts with the IBP, a shareholder of the Company with a 23.84% equity interest in the Company, for (i) the licensing of the technologies owned by the IBP in regard to the production of diagnostic reagents; and (ii) 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 owners of the parent are concerned. Further details of the transactions undertaken in connection with these contracts during the year are included in notes 34 and 35 to the financial statements respectively.

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

As at 31 December 2010, 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		Percentage of the Company's respective type of shares		Percentage of the Company's total registered capital
		Domestic Shares	H Shares	Domestic Shares	H Shares	
IBP	Directly beneficially owned	31,308,576	–	46.72%	0.00%	23.84%
Shanghai Fosun Pingyao Investment Management Company Limited#	Directly beneficially owned	24,506,143	–	36.57%	0.00%	18.66%
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.#	Through controlled corporations	24,506,143	6,780,000	36.57%	10.55%	23.83%
Shanghai Fosun High Technology (Group) Co., Ltd.#	Through controlled corporations	24,506,143	6,780,000	36.57%	10.55%	23.83%
Fosun International Limited#	Through controlled corporations	24,506,143	6,780,000	36.57%	10.55%	23.83%
Fosun Holdings Limited#	Through controlled corporations	24,506,143	6,780,000	36.57%	10.55%	23.83%
Fosun International Holdings Ltd.#	Through controlled corporations	24,506,143	6,780,000	36.57%	10.55%	23.83%
Guo Guangchang#	Through controlled corporations	24,506,143	6,780,000	36.57%	10.55%	23.83%
Fosun Industrial Co., Limited#	Directly beneficially owned	–	6,780,000	0.00%	10.55%	5.16%
Beijing Enterprises Holdings Limited*	Directly beneficially owned	–	24,506,143	0.00%	38.12%	18.66%

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

LONG POSITIONS IN SHARES OF THE COMPANY: *(Continued)*

Name	Capacity and nature of interest	Number of the Company's shares held Domestic Shares	H Shares	Percentage of the Company's respective type of shares Domestic Shares	H Shares	Percentage of the Company's total registered capital
Beijing Enterprises Group Company Limited	Through controlled corporations	–	24,506,143	0.00%	38.12%	18.66%
Chung Shek Enterprises Company Limited	Directly beneficially owned	–	3,800,000	0.00%	5.91%	2.89%
K.C. Wong Education Foundation	Through a controlled corporations	–	3,800,000	0.00%	5.91%	2.89%

\# Each of Shanghai Fosun Pingyao Investment Management Company Limited ("Fosun Pingyao") and Fosun Industrial Co., Limited ("Fosun Industrial") is a wholly-owned subsidiary of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharmaceutical"). Fosun Pharmaceutical is in turn held by 48.05% and 0.01% by Shanghai Fosun High Technology (Group) Co., Ltd. ("Fosun Hi-Tech") and Mr. Guo Guangchang respectively. Fosun Hi-Tech is wholly-owned by Fosun International Limited ("Fosun International") which is in turn held by Fosun Holdings Limited ("Fosun Holdings") as to 78.24%. Fosun Holdings is wholly-owned by Fosun International Holdings Ltd. ("Fosun International Holdings") which is in turn held by Mr. Guo Guangchang as to 58%. Pursuant to the SFO, each of Fosun Pharmaceutical, Fosun Hi-Tech, Fosun International, Fosun Holdings, Fosun International Holdings and Mr. Guo Guangchang is deemed to be interested in the 24,506,143 domestic shares held by Fosun Pingyao and the 6,780,000 H shares held by Fosun Industrial.

* Beijing Enterprises Group Company Limited is the ultimate holding company of Beijing Enterprises Holdings Limited. Accordingly, it is deemed to be interested in the H shares owned by Beijing Enterprises Holdings Limited.

Save as disclosed above, as far as is known to any directors or supervisors of the Company, as at 31 December 2010, 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 2010 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 report, 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in note 35 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 owners 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. John Wong Yik Chung (whose appointment is subject to the approval by the shareholders at the forthcoming annual general meeting of the Company). The Group's audited results for the year ended 31 December 2010 have been reviewed by the audit committee 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, the People's Republic of China
18 March 2011

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 2010 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 prices without prejudice to the interests of the Company and its minority shareholders.

The Supervisory Committee will strictly observe the articles of association of the Company and the relevant requirements in 2011 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
18 March 2011

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

CHAIRMAN OF THE BOARD

Mr. Wu Lebin (**吳樂斌先生**), aged 48, is the Chairman, an executive director and the president of the Company and a 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. Mr. Wu graduated from the Jiangxi Medical College with a bachelor's degree in medicine in 1983 and from the Graduate University of Chinese Academy of Sciences with a master's degree in science in 1988. He also completed an EMBA study program jointly offered by the University of Wisconsin of the United States and the Graduate University of Chinese Academy of Sciences ("CAS") in 2002. Prior to joining the Group, Mr. Wu served as the director and the deputy director in the CAS and the deputy director in the Institute of Biophysics ("IBP") of the CAS respectively. He possesses over 20 years of experience in research management, science development, administration and corporate management. Mr. Wu joined the Company in 2001.

VICE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Dr. Gao Guangxia (**高光俠博士**), aged 45, is the vice chairman and a non-executive director of the Company. He is currently working in the IBP of the CAS as a researcher, an assistant to head of the institute and a tutor of doctorate program. Dr. Gao graduated from the Department of Biology of Peking University in 1988 with a bachelor's degree in science, majoring in biochemistry, and obtained a Ph.D. degree from the Department of Biochemistry of Columbia University, the United States in 1995. He was a post doctor 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 the 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. He 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 43, is an executive director and the vice president of the Company and the general manager of BioTrand Incorporation, a subsidiary of the Company. Dr. Wang graduated from the Department of Biology of Peking University with a bachelor's degree in science in 1990 and obtained a Ph.D. degree in biochemistry from the University of Wisconsin-Madison, the United States in 1997. She conducted postdoctoral researches at the University of California-San Diego from 1997 to 2000. Dr. Wang founded Allele Biotechnology & Pharmaceuticals, Inc. in San Diego, California in 2000 and served as its general manager. In 2004, Dr. Wang participated in the "One Hundred Talent Project" (百人計劃) at the Institute of Microbiology of the CAS as a professor and a tutor of doctorate program. She joined the Company in September 2005 and was appointed as an executive director of the Company in January 2007.

Mr. Hou Quanmin (**侯全民先生**), aged 44, is an executive director of the Company and the general manager of Baiao Pharmaceuticals. Mr. Hou is responsible for the overall management of Baiao Pharmaceuticals. He possesses over 15 years of experience in technological development and corporate management. Mr. Hou graduated from the China Agricultural University with a bachelor's degree in biophysics. Mr. Hou worked in the Beijing Detector Instrument Factory (北京檢測儀器廠) and was engaged in technical work. He was responsible for the management of offices, enterprises and technology development in the Institute of Biophysics. Mr. Hou was the vice head in charge of technology (科技副縣長) of Chicheng County, Zhangjiakou City, Hebei Province, the assistant to the general manager of Baiao Pharmaceuticals and the deputy head of science and technology development department of IBP. Since 1999, Mr. Hou has been the general manager of Baiao Pharmaceuticals. He was awarded the title of "Ten Best Young Managers in the PRC" in 2003. Mr. Hou joined the Company in 2002 and was appointed as the executive director of the Company in January 2007.

NON-EXECUTIVE DIRECTORS

Mr. Rong Yang (**榮洋先生**), aged 51, is a non-executive director of the Company. Mr. Rong graduated from an 8-year medicine program of the Medical School of Peking Union Medical College with a master's degree in medicine in 1987 and was awarded a certificate by the Educational Commission for Foreign Medical Graduates of the United States in 1991. Mr. Rong has been the assistant to the general manager and a vice-general manager of BEHT. He is currently the general manager of Beijing Enterprises Holdings High-Tech Incubator Co., Ltd. Mr. Rong joined the Company in December 2004 and was appointed by BEHT as its representative on the Board. Mr Rong resigned in January 2011.

Ms. Qin Xuemin (**秦學民女士**), aged 52, is a non-executive director of the Company. Ms. Qin 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 for many years. She had worked as the head of the office of State-owned assets investment business companies and the vice-chairman of the administration office for State-owned assets of the Test Zone. Ms. Qin had served as a deputy general manager of Beijing Enterprises Holdings New Auto E-commerce Ltd. and a director and deputy general manager of Beijing Enterprises Holdings High-Tech Development Co., Ltd. She is currently the general manager of 北京北控宏創科技有限公司. Ms. Qin joined the Company in May 2008 and was appointed by BEHT as its representative on the Board. Ms Qin resigned in January 2011.

Mr. Zhang Xiaohui (**張曉暉先生**), aged 46, has a master's degree and is a Chinese Certified Public Accountant, a Chinese Certified Real Estate Appraiser, and a Chinese Certified Land Appraiser. Mr. Zhang was a lecturer of Institute of Management, CAS (中國科學院管理幹部學院), the deputy general manager of 北京機潤生物有限公司, the general manager of the internal audit department of China Technology International Trust Company (中國科技國際信託公司), the deputy general manager of the legal and internal audit department of China Sci-Tech Securities (中國科技證券). Mr. Zhang currently is the deputy general manager and the financial controller of Beijing Enterprises Holdings High-Tech Incubator Co., Ltd. Mr. Zhang joined the Company in February 2010. Mr. Zhang resigned in January 2011.

Mr. Wang Fugen (**王福根先生**), aged 47, is an engineer and a non-executive director of the Company. Mr. Wang studied a post-graduate course in technology and economics management at Zhejiang University. He has been the head of quality control and sales departments of Huangyan Fine Chemicals Group Co., Ltd.. Mr. Wang is currently the general manager of Linhai Jiangnan Pharmaceutical Chemicals Factory and 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yao Fang (姚方), aged 41, obtained a master degree in Business Administration from The Chinese University of Hong Kong in 1993. From the year 1993 to 2009, Mr. Yao was successively the assistant general manager of International Business Department of Shanghai Wanguo Securities Company Limited* (上海萬國證券有限公司), general manager of Shanghai Shangshi Assets Management Company Limited* (上海上實資產經營有限公司), general manager of Shangshi Management (Shanghai) Company Limited* (上實管理(上海)有限公司), managing director of Shanghai Industrial Pharmaceutical Investment Co., Ltd.* (上海實業醫藥投資股份有限公司) (stock code: 60060), a company listed on the Shanghai Stock Exchange, chairman of Shanghai Overseas Company* (上海海外公司) and executive director of Shanghai Industrial Holdings Limited* (上海實業控股有限公司) (stock code: 363), a company listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Yao held the position of deputy general manager and chief financial officer of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司) (stock code: 600196), a company listed on the Shanghai Stock Exchange, from 9 April 2010 to 8 June 2010. Since 9 June 2010, Mr. Yao has been appointed as the vice chairman and general manager of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. Mr. Yao joined the Company in January 2011.

Mr. Qiao Zhicheng (喬志城), aged 38, obtained a doctor degree in Economics from the Guanghua School of Management of Peking University in 2007. From the year 1998 to 2003, Mr. Qiao was successively the project manager of Beijing Youngjin Financial Consultants Limited* (北京湧金財經顧問有限公司), business director of Beijing Zhijin Technology Investment Company Limited* (北京知金科技投資有限公司), general manager of Beijing Youngjin Financial Consultants Limited* (北京湧金財經顧問有限公司) and vice chairman of Youngjin Group* (湧金集團). Mr. Qiao joined Zhuzhou Qianjin Pharmacy Company Limited* (株洲千金藥業股份有限公司) (stock code: 60049), a company listed on the Shanghai Stock Exchange in 2004 as the chief investment officer, and was also the general manager of the said company from December 2004 to August 2010, and vice chairman of the said company from July 2009 to August 2010. Since October 2010, Mr. Qiao has been appointed as the vice general manager and chief financial officer of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司) (stock code: 600196), a company listed on the Shanghai Stock Exchange. Mr. Qiao joined the Company in January 2011.

Mr. Zuo Zhihui (左志輝), aged 46, obtained a master degree in Law from the Peking University in 1989. Mr. Zuo was successively the chairman of the research center of the Chinese Academy of Social Sciences of Jiangxi Province, deputy general manager of State-Owned Assets Management Company Limited of Haikou City* (海口市國有資產經營有限公司) and general manager of Beida Weiming Pharmacy Company Limited* (北大未名藥業有限公司). Since 2008, Mr. Zuo has been appointed as the senior chief investment officer of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司) (stock code: 600196), a company listed on the Shanghai Stock Exchange. Mr. Zuo joined the Company in January 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Rao Yi (**饒毅博士**), aged 48, is an independent non-executive director of the Company. He graduated from the Jiangxi Medical College with a bachelor's degree in medicine in 1983 and studied for a postgraduate master program in the teaching and research section of neurobiology at the Shanghai First Medical College from 1983 to 1985. Dr. Rao graduated from the University of California, San Francisco, with a Ph.D. 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. He 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 of 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.

* *For identification purpose only*

Dr. Hu Canwu Kevin (**胡燦武博士**), male, aged 35, is an independent non-executive director of the Company. He graduated from Fudan University in Shanghai with a bachelor's degree in finance in 1996. He obtained a double master's 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 in 2006. From 1996 to 2003, Dr. Hu worked for Golden Lion Management SA in Geneva. Since 2004, Dr. Hu works for UBS and teaches in the University of Massachusetts Amherst as a part-time lecturer. Dr. Hu joined the Company in February 2009.

Mr. Chan Yiu Kwong (**陳耀光先生**), aged 46, is an independent non-executive director of the Company. He graduated from the University of Hong Kong with a bachelor's degree in social sciences and became a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Chan was the financial controller and company secretary of Founder (Hong Kong) Limited, a company listed on the Main Board of Stock Exchange, and was a manager in Ernst & Young. Mr. Chan currently serves as an executive director and company secretary of Hi Sun Group Limited, a company listed on the Main Board of the Stock Exchange. Mr. Chan has over 15 years of experience in auditing, business consulting and business management. Mr. Chan joined the Company in 2005 and resigned in December 2010.

SUPERVISORS

Dr. He Rongqiao (**赫榮喬博士**), male, aged 56, is a supervisor of the Company. Dr. He obtained a bachelor's degree, a master's degree and a Ph.D. degree from Luzhou Medical College, the Institute of Microbiology of the CAS and the IBP respectively. Dr. He has visited University of Cambridge, the United Kingdom, University of Bristol, the United Kingdom, McGill University, Canada, University of Pisa, Italy and New York State Institute for Basic Research. Mr. He Rongqiao is currently the deputy director of the IBP and a member of Biophysical Society USA, the administrator of the "Brain and Cognitive Sciences Center" of the IBP, CAS (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 (中科院視覺資訊加工重點實驗室), a member of the Professional Committee of Biophysical Society of China, the vice administrator of Professional Committee of the Neural Science of the Biophysical Society of China and the deputy-editor-in-chief of numerous academic journals including Progress in Biochemistry and Biophysics. Dr. He joined the Company in September 2003.

Mr. Shao Yimin (**邵依民先生**), aged 52, is a supervisor of the Company. Mr. Shao studied in Capital University of Economics and Business and University of International Business and Economics and obtained a master's degree of industrial economics from. Mr. Shao is currently the vice officer of the president's office of the Company. Mr. Shao joined the Company in January 2004.

Mr. Zhang Lingyong (**張靈勇先生**), aged 27, graduated from Beijing University of Chemical Technology and obtained a bachelor's degree in financial management from the College of Economics and Management of the university in 2007. Since May 2007, Mr. Zhang has been working in the respective investment departments of Beijing Enterprises Holdings High-Tech Development Co., Ltd. and Beijing Enterprises Holdings High-Tech Incubator Co., Ltd., responsible for investment and management. Mr. resigned in January 2011.

Ms. Guan Xiaohui (**關曉暉女士**), aged 39, obtained a master degree in Accounting from the Chinese University of Hong Kong in 2007 and is a Certified Public Accountant. From July 1992 to April 2000, Ms. Guan was the staff to the Jiangxi branch of Industrial and Commercial Bank of China. From May 2000 to May 2010, Ms. Guan was successively the financial manager of medicine circulation department of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司) (stock code: 600196), a company listed on the Shanghai Stock Exchange, chief financial officer of Shanghai Fosun Pharmacy Company Limited* (上海復星藥業有限公司), assistant to the chief financial officer and vice chief financial officer of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and vice chairman of commercial management committee. Since June 2010, Ms. Guan has been appointed as the assistant to the chairman and general manager of financial department of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.. Ms. Guan joined the Company in January 2011.

* *For identification purpose only*

SENIOR MANAGEMENT

Mr. Zhou Jie (**周潔先生**), aged 48, is a 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 in 1988 and graduated from Renmin University of China with a master's 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.

Mr. Zhang Kun (**張昆先生**), aged 44, is a 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 graduated from the School of Economics and Management of Tsinghua University with a master's degree in business administration. Mr. Zhang completed an on the job training program in the School of Pharmaceutical Science of Peking University, graduated from pharmaceutical executive management master course and obtained a master's degree. Mr. Zhang worked in the IBP. Mr. Zhang joined the Company in September 2003 as an assistant to the president of the Company, and was appointed as a vice president of the Company in January 2007.

Ms. Yao Ping (**姚萍女士**), aged 48, 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 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 in 1984. Ms. Yao obtained an associate-professor qualification from the Personnel Department of Gansu Province and the Job Title Working Group of the Gansu Province in 1998 and has published many articles and monographs. During 1983 to 1999, Ms. Yao taught economics at Northwest Normal University. During 1999 to 2002, Ms. Yao was seconded to the IBP and was responsible for corporate development. Ms. Yao joined the Company in April 2001.

Ms. Wang Jianqing (**王建清女士**), aged 47, is a vice president of the Company. Ms. Wang graduated from the department of chemistry of Lanzhou University with a bachelor’s degree in science. Ms. Wang has worked for Northwest Normal University, Yantai Plastic Industrial Research Institute (煙台塑料工業研究所), Yantai Valiant Fine Chemicals Co., Ltd. (煙台萬潤精細化工公司), Shandong Luye Pharmaceutical Co., Ltd. (山東綠葉製藥股份有限公司), engaging in, among other matters, education, scientific research, logistics control and quality management as a tutor, an engineer, and a senior engineer, respectively. Ms. Wang Jianqing acted as a quality director for the Company and joined the Company in August 2004.

Mr. Gao Shengli (**高勝利先生**), aged 42, 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 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 a master's 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. 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 51, 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 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 39, is the company secretary of the Company. Mr. Tung graduated from York University, Toronto, Canada with a bachelor's degree in management studies in 1993. Mr. Tung is a certified public accountant of Hong Kong Institute of Certified Public Accountants. He is also an 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 and company secretary of Beijing Enterprises Water Group Limited, an independent non-executive director of South China Financial Holdings Limited, all are companies listed on the Main Board of the Stock Exchange.

QUALIFIED ACCOUNTANT

Mr. Cheung Yeung (**張洋先生**), aged 31, is the qualified accountant of the Company. Mr. Cheung obtained a bachelor's 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 8 years of accounting and auditing experience. Prior to joining the Company in December 2007, Mr. Cheung worked in Beijing Enterprises Holdings Limited as an accounting manager. Mr. Cheung joined the Company in December 2007.

INDEPENDENT AUDITORS' REPORT

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 consolidated financial statements of Biosino Bio-Technology and Science Incorporation (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 106, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 *(continued)*

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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
18 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
REVENUE	*5*	**229,282**	212,020
Cost of sales		**(80,741)**	(68,656)
Gross profit		**148,541**	143,364
Other income and gains	*5*	**13,659**	13,639
Selling and distribution expenses		**(63,826)**	(56,782)
Administrative expenses		**(44,572)**	(44,192)
Research and development expenses		**(17,662)**	(16,283)
Other expenses		**(308)**	(3,211)
Finance costs	*7*	**(723)**	(1,296)
Share of losses of associates		**(403)**	(746)
PROFIT BEFORE TAX	*6*	**34,706**	34,493
Income tax expense	*10*	**(5,339)**	(5,401)
PROFIT FOR THE YEAR		**29,367**	29,092
Attributable to:			
Owners of the parent	*11*	**27,647**	26,519
Non-controlling interests		**1,720**	2,573
		29,367	29,092
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*13*	**RMB0.27**	RMB0.27

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Note	**2010 RMB'000**	2009 RMB'000
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**29,367**	29,092
Attributable to:			
Owners of the parent	*11*	**27,647**	26,519
Non-controlling interests		**1,720**	2,573
		29,367	29,092

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**102,723**	107,829
Prepaid land lease payments	15	**6,951**	7,124
Goodwill	16	**309**	309
Other intangible assets	17	**6,545**	2,907
Investments in associates	19	**2,731**	3,134
Total non-current assets		**119,259**	121,303
CURRENT ASSETS			
Prepaid land lease payments	15	**177**	177
Inventories	20	**31,674**	25,976
Trade and bills receivables	21	**40,669**	39,306
Prepayments, deposits and other receivables	22	**10,805**	5,832
Time deposits	23	**41,300**	7,800
Cash and cash equivalents	23	**161,710**	95,345
Total current assets		**286,335**	174,436
CURRENT LIABILITIES			
Trade payables	24	**10,592**	8,926
Other payables and accruals	25	**37,858**	30,312
Taxes payable		**1,050**	640
Total current liabilities		**49,500**	39,878
NET CURRENT ASSETS		**236,835**	134,558
TOTAL ASSETS LESS CURRENT LIABILITIES		**356,094**	255,861

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**356,094**	255,861
NON-CURRENT LIABILITIES			
Deferred income	*26*	**11,785**	17,337
Corporate bonds	*27*	**19,801**	–
Total non-current liabilities		**31,586**	17,337
Net assets		**324,508**	238,524
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*28*	**131,304**	100,018
Reserves	*29(a)*	**143,587**	97,977
Proposed final dividend	*12*	**13,130**	13,502
		288,021	211,497
Non-controlling interests		**36,487**	27,027
Total equity		**324,508**	238,524

Wu Lebin
Director

Wang Lin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

		Attributable to owners of the parent							
	Notes	Issued capital RMB'000 *Note 28*	Capital reserves RMB'000 *Note29(a)*	Statutory reserves RMB'000 *Note29(a)*	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010		100,018	31,126	32,308	34,543	13,502	211,497	27,027	238,524
Profit and total comprehensive income for the year		–	–	–	27,647	–	27,647	1,720	29,367
Acquisition of a subsidiary		–	–	–	–	–	–	2,122	2,122
Capital contributions from non-controlling interests		–	–	–	–	–	–	5,479	5,479
Issue of shares	*28(b)*	31,286	32,096	–	–	–	63,382	–	63,382
Share issue expenses		–	(864)	–	–	–	(864)	–	(864)
Unilateral capital contribution to subsidiaries from non-controlling interests		–	(139)	–	–	–	(139)	139	–
Transfer to statutory reserves		–	–	3,535	(3,535)	–	–	–	–
Final 2009 dividend declared	*12*	–	–	–	–	(13,502)	(13,502)	–	(13,502)
Proposed 2010 final dividend	*12*	–	–	–	(13,130)	13,130	–	–	–
At 31 December 2010		131,304	62,219*	35,843*	45,525*	13,130	288,021	36,487	324,508

		Attributable to owners of the parent							
	Notes	**Issued Capital RMB'000 *Note 28***	**Capital reserves RMB'000 *Note29(a)***	**Statutory reserves RMB'000 *Note29(a)***	**Retained profits RMB'000**	**Proposed final dividend RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
At 1 January 2009		**100,018**	**31,126**	**27,991**	**25,843**	**10,002**	**194,980**	**22,354**	**217,334**
Profit and total comprehensive income for the year		**–**	**–**	**–**	**26,519**	**–**	**26,519**	**2,573**	**29,092**
Capital contributions from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**2,500**	**2,500**
Offsetting prior years' losses		**–**	**–**	**(118)**	**118**	**–**	**–**	**–**	**–**
Transfer to statutory reserves		**–**	**–**	**4,435**	**(4,435)**	**–**	**–**	**–**	**–**
Final 2008 dividend declared	*12*	**–**	**–**	**–**	**–**	**(10,002)**	**(10,002)**	**–**	**(10,002)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(400)**	**(400)**
Proposed 2009 final dividend	*12*	**–**	**–**	**–**	**(13,502)**	**13,502**	**–**	**–**	**–**
At 31 December 2009		**100,018**	**31,126***	**32,308***	**34,543***	**13,502**	**211,497**	**27,027**	**238,524**

* These reserve accounts comprise the consolidated reserves of RMB143,587,000 (2009: RMB97,977,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**34,706**	34,493
Adjustments for:			
Bank interest income	*5*	**(1,159)**	(1,211)
Finance costs	*7*	**723**	1,296
Bond issuance expenses		**172**	–
Share of losses of associates		**403**	746
Gain on acquisition a subsidiary	*5*	**(158)**	–
Dividend income from equity investments		**–**	(215)
Fair value gain on equity investments at fair value through profit or loss, net	*6*	**–**	(4,587)
Depreciation	*6*	**13,796**	13,566
Recognition of prepaid land lease payment	*6*	**173**	173
Amortisation of other intangible assets	*6*	**949**	714
Gain on disposal of items of property, plant and equipment, net	*6*	**(9)**	(27)
Write-down of inventories to net realisable value	*6*	**–**	20
Reversal of impairment of trade and bills receivables, net	*6*	**(417)**	–
(Reversal of impairment)/impairment of other receivables, net	*6*	**(20)**	150
Impairment of an investment in an associate	*6*	**–**	56
Exchange loss, net		**550**	–
		49,709	45,174
(Increase)/decrease in inventories		**(661)**	2,473
Increase in trade and bills receivables		**(930)**	(1,849)
(Increase)/decrease in prepayments, deposits and other receivables		**(4,473)**	1,116
(Decrease)/increase in trade payables		**(327)**	2,003
Increase in other payables and accruals		**7,443**	5,174
(Decrease)/increase in other tax payable		**(471)**	464
(Decrease)/increase in deferred income		**(5,552)**	3,180
Cash generated from operations		**44,738**	57,735
Income tax paid		**(4,929)**	(5,422)
Interest received		**1,159**	1,211
Net cash flows from operating activities		**40,968**	53,524

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Net cash flows from operating activities		**40,968**	53,524
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(9,464)**	(6,986)
Additions to other intangible assets		**(155)**	(40)
Proceeds from disposal of items of property, plant and equipment		**357**	858
Increase in time deposits		**(33,500)**	(1,200)
Acquisition of a subsidiary	*30*	**(460)**	–
Disposal of equity investments		**–**	14,796
Dividends received from equity investments		**–**	215
Net cash flows from/(used in) investing activities		**(43,222)**	7,643
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**63,382**	–
Share issue expenses		**(664)**	–
Proceeds from issue of corporate bonds		**20,000**	–
Bond issue expenses		**(716)**	–
Capital contributions from non-controlling shareholders		**1,047**	500
New bank loans		**10,000**	–
Repayment of bank loans		**(10,000)**	(40,000)
Interest paid		**(378)**	(1,296)
Dividends paid		**(13,502)**	(10,402)
Net cash flows from/(used in) financing activities		**69,169**	(51,198)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**66,915**	9,969
Cash and cash equivalents at beginning of year		**95,345**	85,376
Effect of foreign exchange rate changes, net		**(550)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**161,710**	95,345
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*23*	**161,710**	95,339
Cash equivalents	*23*	**–**	6
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**161,710**	95,345

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**44,796**	45,415
Prepaid land lease payments	*15*	**3,224**	3,305
Investments in subsidiaries	*18*	**70,783**	58,033
Investments in associates	*19*	**4,000**	4,000
Other intangible assets		**65**	–
Total non-current assets		**122,868**	110,753
CURRENT ASSETS			
Due from subsidiaries	*18*	**300**	1,663
Prepaid land lease payments	*15*	**75**	75
Inventories	*20*	**13,967**	14,604
Trade and bills receivables	*21*	**22,685**	17,274
Prepayments, deposits and other receivables	*22*	**5,152**	4,113
Time deposits	*23*	**10,000**	–
Cash and cash equivalents	*23*	**116,233**	68,221
Total current assets		**168,412**	105,950
CURRENT LIABILITIES			
Due to subsidiaries	*18*	**613**	78
Trade payables	*24*	**4,208**	3,971
Other payables and accruals	*25*	**21,852**	17,646
Taxes payable		**547**	–
Total current liabilities		**27,220**	21,695
NET CURRENT ASSETS		**141,192**	84,255
TOTAL ASSETS LESS CURRENT LIABILITIES		**264,060**	195,008
NON-CURRENT LIABILITIES			
Deferred income	*26*	**2,250**	7,612
Total non-current liabilities		**2,250**	7,612
Net assets		**261,810**	187,396
EQUITY			
Issued capital	*28*	**131,304**	100,018
Reserves	*29(b)*	**117,376**	73,876
Proposed final dividend	*12*	**13,130**	13,502
Total equity		**261,810**	187,396

Wu Lebin
Director

Wang Lin
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2010

1. CORPORATE INFORMATION

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 certain assets 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

(a) Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

(b) Upon loss of control, the Group accounted for the investment retained at its proportionate share of net assets value at the date control was lost. The carrying value of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009*, the adoption of new and revised HKFRSs has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

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

(a) **HKFRS 3 (Revised)** *Business Combinations* **and HKAS 27 (Revised)** *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes 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. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards –Severe Hyperinflation and Removal of Fixed Dates For First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[5]
HKAS 12 Amendment	Amendment to HKAS 12 *Income Taxes-Deferred Tax: Recovery of Underlying Assets*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013
6 Effective for annual periods beginning on or after 1 January 2012

The Group is in the process of making assessment of these new and revised HKFRSs upon initial application. So far, the directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the results and financial position of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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 investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

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

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

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

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture'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 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 investments in associates are stated in the consolidated statement of financial position 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 investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

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

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period 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.

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 an associate;

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

(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).

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any impairment losses. 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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 and other structures	3.3% to 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. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised 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.

Construction in progress ("CIP") represents buildings, structures, plant and machinery and other property, plant and equipment under construction or installation. It 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Know-how

Purchased know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over an estimated useful life of 10 years.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over an estimated useful life of 2 years.

Research and development costs

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank equivalents, time deposits, due from subsidiaries, trade and bills receivables, as well as other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and include fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

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 when:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or decreased by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value though profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, and corporate bonds.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial investments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial investments where there is no active market, the fair value is determined using appropriate 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.

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 statement of cash flows, 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 statement of financial position, 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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or 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 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.

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 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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 by the end of the reporting period.

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period when appropriate, to the net carrying amount of the financial asset; and

(iii) dividend income, when the shareholders' right to receive payment has been established.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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.

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 end of the reporting period. 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 key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period. 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 discussed below:

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

Judgements and estimation uncertainty *(continued)*

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 and estimation are 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.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. 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. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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 other receivables

The Group's management determines the provision for impairment of trade and other 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

Judgements and estimation uncertainty *(continued)*

Provision against 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 the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period. 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.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has two reportable operating segments as follows:

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, as well as fair value gains from the Group's financial instruments, as well as share of losses of associates are excluded from such measurement.

Segment assets exclude time deposits, cash and cash equivalents, and goodwill as these assets are managed on a group basis.

Segment liabilities exclude taxes payable as these liabilities are managed on a group basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2010

	In-vitro diagnostic reagent products RMB'000	Pharma-ceutical products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	168,211	61,071	229,282
Segment results	33,884	386	34,270
Reconciliation:			
Interest income			1,159
Finance costs			(723)
Profit before tax			34,706
Segment assets	118,074	85,686	203,760
Reconciliation:			
Elimination of intersegment receivables			(1,485)
Corporate and other unallocated assets			203,319
Total assets			405,594
Segment liabilities	42,465	39,056	81,521
Reconciliation:			
Elimination of intersegment payables			(1,485)
Corporate and other unallocated liabilities			1,050
Total liabilities			81,086
Other segment information:			
Share of losses of associates	403	–	403
Reversal of impairment of trade and other receivables	–	437	437
Depreciation and amortisation	8,840	6,078	14,918
Investments in associates	2,731	–	2,731
Capital expenditure*	9,016	4,609	13,625

* Capital expenditure consists of additions to property, plant and equipment and other intangible assets including assets from the acquisition of a subsidiary.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2009

	In-vitro diagnostic reagent products RMB'000	Pharma-ceutical products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	143,940	68,080	212,020
Segment results	22,441	7,335	29,776
Reconciliation:			
Interest income			1,211
Dividend income and unallocated gains			4,802
Finance costs			(1,296)
Profit before tax			34,493
Segment assets	102,207	93,882	196,089
Reconciliation:			
Elimination of intersegment receivables			(3,804)
Corporate and other unallocated assets			103,454
Total assets			295,739
Segment liabilities	36,915	23,464	60,379
Reconciliation:			
Elimination of intersegment payables			(3,804)
Corporate and other unallocated liabilities			640
Total liabilities			57,215
Other segment information:			
Share of losses of associates	746	–	746
Impairment losses recognised in the income statement	206	20	226
Depreciation and amortisation	8,138	6,315	14,453
Investments in associates	3,134	–	3,134
Capital expenditure*	7,657	1,706	9,363

* Capital expenditure consists of additions to property, plant and equipment and other intangible assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

4. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers

No revenue from transactions with a single customer amounted to more than 10% of the Group's total revenue.

Geographical information

During the years ended 31 December 2009 and 2010, more than 90% of the Group's revenue was generated from customers located in Mainland China and all of the non-current assets of the Group were located in Mainland China.

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of in-vitro diagnostic reagent products	**168,211**	143,940
Sale of pharmaceutical products	**61,071**	68,080
	229,282	212,020
Other income		
Bank interest income	**1,159**	1,211
Government subsidies	**11,697**	7,080
Others	**636**	734
	13,492	9,025
Gains		
Fair value gain on equity investments at fair value through profit or loss, net	**–**	4,587
Gain on disposal of items of property, plant and equipment, net	**9**	27
Gain on acquisition of a subsidiary	**158**	–
	167	4,614
Other income and gains	**13,659**	13,639

NOTES TO FINANCIAL STATEMENTS

31 December 2010

6. PROFIT BEFORE TAX

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

	Notes	**2010 RMB'000**	2009 RMB'000
Cost of inventories sold		**80,741**	68,656
Employee benefit expense (including directors' and supervisors' remuneration *(note 8)*):			
Wages, salaries and bonuses		**48,152**	38,891
Pension scheme contributions *(note i)*		**4,723**	4,240
Social welfare and other costs		**9,767**	9,208
		62,642	52,339
Research and development costs		**17,662**	16,283
Less: government grants released		**(11,697)**	(7,080)
		5,965	9,203
Fair value gain on equity investments at fair value through profit or loss, net	*5*	**–**	(4,587)
Gain on disposal of items of property, plant and equipment, net	*5*	**(9)**	(27)
Minimum lease payments under operating leases in respect of land and buildings		**1,159**	859
Auditors' remuneration		**900**	800
Depreciation	*14*	**13,796**	13,566
Recognition of prepaid land lease payments	*15*	**173**	173
Amortisation of other intangible assets	*17*	**949**	714
Write-down of inventories to net realisable value		**–**	20
Reversal of impairment of trade receivables, net		**(417)**	–
(Reversal of impairment)/impairment of other receivables, net		**(20)**	150
Impairment of an investment in an associate		**–**	56
Foreign exchange differences, net		**550**	(8)

(i) Defined contribution pension scheme

All of the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension scheme at 20% (2009: 20%) of the employees' basic salaries. This defined contribution pension scheme continued to be available to the Group's employees for the year. The related pension costs are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

7. FINANCE COSTS

	Group	
	2010	2009
	RMB'000	RMB'000
Interest on bank loans	**345**	1,296
Interest on corporate bonds *(note 27)*	**378**	–
	723	1,296

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group	
	2010	2009
	RMB'000	RMB'000
Fees	**413**	286
Other emoluments:		
Salaries, allowances and benefits in kind	**3,304**	2,922
Pension scheme contributions	**12**	38
	3,316	2,960
	3,729	3,246

(a) Independent non-executive directors

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

	2010	2009
	RMB'000	RMB'000
Mr. Rao Yi	**60**	60
Dr. Hu Canwu Kevin	**60**	55
Mr. Chan Yiu Kwong	**43**	50
	163	165

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010				
Executive directors:				
Mr. Wu Lebin	18	1,631	3	1,652
Dr. Wang Lin	23	515	1	539
Mr. Hou Quanmin	56	974	–	1,030
Non-executive directors:				
Dr. Gao Guangxia	40	–	–	40
Mr. Rong Yang	37	–	–	37
Ms. Qin Xuemin	11	–	–	11
Mr. Zhang Xiaohui	21	–	–	21
Mr. Wang Fugen	17	–	–	17
Supervisors:				
Dr. He Rongqiao	20	–	–	20
Mr. Zhang Lingyong	7	–	–	7
Mr. Shao Yimin	–	184	8	192
	250	3,304	12	3,566

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

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

	Fees RMB'000	Salaries, Allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009				
Executive directors:				
Mr. Wu Lebin	27	1,662	10	1,699
Dr. Wang Lin	2	391	10	403
Mr. Hou Quanmin	9	721	10	740
Non-executive directors:				
Dr. Gao Guangxia	20	–	–	20
Mr. Zhang Yong	14	–	–	14
Mr. Rong Yang	20	–	–	20
Ms.Qin Xuemin	7	–	–	7
Mr. Wang Fugen	7	–	–	7
Ms. Yu Xiaomin	4	–	–	4
Supervisors:				
Dr. He Rongqiao	7	–	–	7
Mr. Wang Xin	4	–	–	4
Mr. Shao Yimin	–	148	8	156
	121	2,922	38	3,081

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

NOTES TO FINANCIAL STATEMENTS

31 December 2010

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2009: two) directors/supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2009: three) non-director/supervisor, highest paid employees for the year are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,041**	1,035
Pension scheme contributions	**23**	21
	1,064	1,056

The remuneration of each of the two (2009: three) non-director/supervisor, highest paid employees during the year fell within the band of Nil to HK$1,000,000.

10. INCOME TAX EXPENSE

The Company and all its subsidiaries that operate in Mainland China are subject to the statutory corporate income tax rate of 25% (2009: 25%) for the year under the income tax rules and regulations of the PRC, except that the Company and certain subsidiaries are subject a preferential rate of 15% as they are assessed by relevant government authorities as High and New Technology Enterprises ("HNTE") for a period of three years commencing 1 January 2008. Pursuant to the PRC Income Tax Law, enterprises assessed as "HNTE" are entitled to a preferential income tax rate of 15%.

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 (2009: Nil).

Taxes on profits assessable in Mainland China, where the Group operates, have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2010	2009
	RMB'000	RMB'000
Current – the PRC	**5,159**	4,909
Adjustments in respect of current tax of previous periods	**180**	492
Total tax charge for the year	**5,339**	5,401

NOTES TO FINANCIAL STATEMENTS

31 December 2010

10. INCOME TAX EXPENSE *(continued)*

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

	2010		2009	
	RMB'000	**%**	RMB'000	%
Profit before tax	**34,706**		34,493	
Tax at the statutory tax rates	**8,677**	**25.0**	8,623	25.0
Preferential tax rate or concessions	**(3,362)**	**(9.7)**	(3,250)	(9.4)
Adjustments in respect of current tax of previous periods	**180**	**0.5**	492	1.4
Losses attributable to associates	**101**	**0.3**	186	0.5
Tax incentives on eligible expenditures	**(2,042)**	**(5.9)**	(2,103)	(6.1)
Income not subject to tax	**(283)**	**(0.8)**	(591)	(1.7)
Expenses not deductible for tax	**974**	**2.8**	926	2.7
Tax losses not recognised	**1,094**	**3.2**	1,118	3.3
Tax charge at the Group's effective rate	**5,339**	**15.4**	5,401	15.7

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB25,398,000 (2009: RMB21,831,000) which has been dealt with in the financial statements of the Company (note 29(b)).

12. DIVIDENDS

	2010	2009
	RMB'000	RMB'000
Proposed final dividend – RMB0.1 (2009: RMB0.135) per share	**13,130**	13,502

The proposed final dividend for the year (not recognised as liability as at 31 December 2010) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

13. 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 ordinary equity holders of the parent of RMB27,647,000 (2009: RMB26,519,000) and the weighted average number of ordinary shares of 102,624,707 (2009: 100,017,528) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Building and othe 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 2010							
At 31 December 2009 and at 1 January 2010:							
Cost	66,548	10,214	65,769	9,193	7,399	–	159,123
Accumulated depreciation	(10,103)	(2,656)	(28,213)	(5,728)	(4,594)	–	(51,294)
Net carrying amount	56,445	7,558	37,556	3,465	2,805	–	107,829
At 1 January 2010, net of accumulated depreciation	56,445	7,558	37,556	3,465	2,805	–	107,829
Additions	116	648	3,795	730	850	2,467	8,606
Acquisition of a subsidiary *(note 30)*	–	–	–	69	363		432
Depreciation provided during the year	(2,833)	(1,610)	(6,924)	(1,430)	(999)	–	(13,796)
Disposals	(92)	–	(220)	(23)	(13)	–	(348)
Transfers	–	–	253	28	–	(281)	–
At 31 December 2010, net of accumulated depreciation	53,636	6,596	34,460	2,839	3,006	2,186	102,723
At 31 December 2010:							
Cost	66,538	10,861	68,906	9,137	8,332	2,186	165,960
Accumulated depreciation	(12,902)	(4,265)	(34,446)	(6,298)	(5,326)	–	(63,237)
Net carrying amount	53,636	6,596	34,460	2,839	3,006	2,186	102,723

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

Group *(continued)*

	Building 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 2009							
At 1 January 2009:							
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
At 1 January 2009, net of accumulated depreciation	65,069	1,010	41,944	4,078	2,630	172	114,903
Additions	438	2,352	2,419	922	1,171	21	7,323
Depreciation provided during the year	(2,891)	(1,409)	(6,815)	(1,483)	(968)	–	(13,566)
Disposals	(707)	(41)	(3)	(52)	(28)	–	(831)
Transfers	(5,464)	5,646	11	–	–	(193)	–
At 31 December 2009, net of accumulated depreciation	56,445	7,558	37,556	3,465	2,805	–	107,829
At 31 December 2009:							
Cost	66,548	10,214	65,769	9,193	7,399	–	159,123
Accumulated depreciation	(10,103)	(2,656)	(28,213)	(5,728)	(4,594)	–	(51,294)
Net carrying amount	56,445	7,558	37,556	3,465	2,805	–	107,829

NOTES TO FINANCIAL STATEMENTS

31 December 2010

14. 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 2010							
At 1 January 2010, net of accumulated depreciation	18,899	5,385	18,642	1,183	1,306	–	45,415
Additions	–	85	2,578	196	468	2,467	5,794
Depreciation provided during the year	(680)	(910)	(3,808)	(461)	(523)	–	(6,382)
Disposals	–	–	(20)	(5)	(6)	–	(31)
Transfers	–	–	253	28	–	(281)	–
At 31 December 2010, net of accumulated depreciation	18,219	4,560	17,645	941	1,245	2,186	44,796
At 31 December 2010:							
Cost	21,807	6,575	38,780	3,776	4,605	2,935	78,478
Accumulated depreciation	(3,588)	(2,015)	(21,135)	(2,835)	(3,360)	(749)	(33,682)
Net carrying amount	18,219	4,560	17,645	941	1,245	2,186	44,796

NOTES TO FINANCIAL STATEMENTS

31 December 2010

14. 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 2009							
At 1 January 2009:							
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
At 1 January 2009, net of accumulated depreciation	25,811	87	21,478	1,732	1,668	114	50,890
Additions	–	537	1,191	165	266	21	2,180
Depreciation provided during the year	(740)	(885)	(4,036)	(695)	(613)	–	(6,969)
Disposals	(649)	–	(3)	(19)	(15)	–	(686)
Transfers	(5,523)	5,646	12	–	–	(135)	–
At 31 December 2009, net of accumulated depreciation	18,899	5,385	18,642	1,183	1,306	–	45,415
At 31 December 2009:							
Cost	21,806	6,490	36,661	4,366	4,266	–	73,589
Accumulated depreciation	(2,907)	(1,105)	(18,019)	(3,183)	(2,960)	–	(28,174)
Net carrying amount	18,899	5,385	18,642	1,183	1,306	–	45,415

As at 31 December 2010, certain buildings of the Group with a net book value of approximately RMB24,558,000 (2009: Nil) were pledged to a third party to obtain the corporate guarantee for the corporate bonds issued by a subsidiary (note 27).

As at 31 December 2010, certain buildings of the Group with a net book value of RMB nil (2009: RMB25,479,000) were pledged to a third party for bank facilities granted to the Group.

NOTES TO FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Carrying amount at 1 January	**7,301**	7,474	**3,380**	3,461
Recognition during the year	**(173)**	(173)	**(81)**	(81)
Carrying amount at 31 December	**7,128**	7,301	**3,299**	3,380
Current portion	**(177)**	(177)	**(75)**	(75)
Non-current portion	**6,951**	7,124	**3,224**	3,305

The leasehold land is held under medium term leases and are situated in Mainland China.

As at 31 December 2010, certain land use rights of the Group with net book value of RMB 3,288,000 (2009: Nil) were pledged to a third party to obtain a corporate guarantee provided by such third party in respect of the corporate bonds issued by of a subsidiary (note 27).

As at 31 December 2010, certain land use rights of the Group with net book value of RMB nil (2009: RMB3,360,000) were pledged to a third party for bank facilities granted to the Group.

16. GOODWILL

	Group RMB'000
At 1 January 2009 and 31 December 2009	
Cost	470
Accumulated impairment	(161)
Net carrying amount	309
At 1 January 2010 and 31 December 2010:	
Cost	470
Accumulated impairment	(161)
Net carrying amount	309

NOTES TO FINANCIAL STATEMENTS

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16. GOODWILL *(continued)*

Impairment testing of goodwill

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

– Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd.; and

– Biosino-AgiAccu Bio-Technology Co., Ltd.

The recoverable amount of each of the cash-generating units 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 6.6% (2009: 6.9%).

Key assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2010 and 31 December 2009. 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.

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17. OTHER INTANGIBLE ASSETS

Group

	Know-how RMB'000	Computer software RMB'000	Total RMB'000
At 31 December 2010			
At 31 December 2009 and 1 January 2010:			
Cost	6,324	912	7,236
Accumulated amortisation	(3,417)	(912)	(4,329)
Net carrying amount	2,907	–	2,907
Net carrying amount:			
At 1 January 2010	2,907	–	2,907
Additions	4,587	–	4,587
Amortisation provided during the year	(949)	–	(949)
At 31 December 2010	6,545	–	6,545
At 31 December 2010:			
Cost	10,911	912	11,823
Accumulated amortisation	(4,366)	(912)	(5,278)
Net carrying amount	6,545	–	6,545

NOTES TO FINANCIAL STATEMENTS

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17. OTHER INTANGIBLE ASSETS *(continued)*

Group *(continued)*

	Know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2009			
At 1 January 2009:			
Cost	4,284	912	5,196
Accumulated amortisation	(2,703)	(912)	(3,615)
Net carrying amount	1,581	–	1,581
Net carrying amount:			
At 1 January 2009	1,581	–	1,581
Additions	2,040	–	2,040
Amortisation provided during the year	(714)	–	(714)
At 31 December 2009	2,907	–	2,907
At 31 December 2009:			
Cost	6,324	912	7,236
Accumulated amortisation	(3,417)	(912)	(4,329)
Net carrying amount	2,907	–	2,907

NOTES TO FINANCIAL STATEMENTS

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18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 RMB'000	2009 RMB'000
Unlisted equity investments in the PRC, at cost	**70,783**	58,033

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB300,000 (2009: RMB1,663,000) and RMB613,000 (2009: RMB78,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

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		Principal activities
			Direct	Indirect	
Beijing Baiao Pharmaceuticals Company Limited ("Baiao Pharmaceuticals") (北京百奧藥業有限責任公司)	Mainland China	RMB55 million	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)	Mainland China	RMB2.3 million	51%	–	Manufacture, sale and distribution of in-vitro diagnostic reagent products
BioTrand Bio-Technology Incorporation* ("BioTrand") (北京百川飛虹生物科技有限公司)	Mainland China	RMB10 million	50%	40%	Biotechnology research
Biosino-AgiAccu Bio-Technology Co., Ltd. ("AgiAccu") (北京中生朗捷生物技術有限公司)	Mainland China	RMB5.3 million	56.25%	–	Research, development, manufacture and distribution of biological reagents

NOTES TO FINANCIAL STATEMENTS

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18. INVESTMENTS 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	Principal activities
Mian Yang Hi-tech Industrial Park Zhongke Bioengineering Co., Ltd. ("Mian Yang Zhongke") (綿陽高新區中科生物工程有限公司)*	Mainland China	RMB12.8 million/ RMB14 million	50%	–	Development, manufacture and distribution of enzyme and biological products
Mian Yang Hi-tech Industrial Park KeLi Bioengineering Co., Ltd. ("Mian Yang Keli") (綿陽高新區科力生物醫藥有限公司)*	Mainland China	RMB0.5 million	–	35%	Development, manufacture and distribution of enzyme and biological products
Biosino Suzhou Medical Instrument Co., Ltd. ("Biosino Suzhou") (中生(蘇州)醫療儀器有限公司)	Mainland China	RMB10 million	80%	–	Production of medical instruments
Beijing Huamei Scientific Company ("Huamei") (中生華美(北京)科技有限公司)	Mainland China	RMB4.6 million	56.52%	–	Purchase and distribution of biological products
Beijing Biosino-Immunodiagnosis Technology Co., Ltd. (北京中生執信免疫診斷技術有限公司)	Mainland China	RMB3 million	100%	–	Distribution of immunodiagnostic products

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

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19. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investment, at cost	**–**	–	**5,100**	5,100
Share of net assets	**2,787**	3,190	**–**	–
	2,787	3,190	**5,100**	5,100
Provision for impairment	**(56)**	(56)	**(1,100)**	(1,100)
	2,731	3,134	**4,000**	4,000

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

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of equity attributable to the Group	Principal activities
Beijing Zhongsheng KeWei Technology Co., Ltd.* (Formerly known as "Beijing Zhongsheng KeWei Medical Technology Co., Ltd.") (北京中生科維技術有限公司，原名為"北京中生科維醫療科技有限公司")	Mainland China	RMB5.7 million	19.3%	Development, manufacture and distribution of clinical instruments
Biosino Lab Tech. Inc.* ("BioLab") (北京中生可利檢驗醫學技術有限責任公司)	Mainland China	RMB9 million	42.22%	Medical science research
Beijing Zhonghe Baike Scientific Instrument and Technology Co., Ltd.* (北京眾合百克科學儀器技術有限公司)	Mainland China	RMB1 million	20%	Production of scientific instruments

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

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19. INVESTMENTS IN ASSOCIATES *(continued)*

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

	2010 RMB'000	2009 RMB'000
Assets	**11,981**	10,444
Liabilities	**8,172**	3,380
Revenues	**1,089**	429
Losses	**(3,729)**	(3,508)

20. INVENTORIES

	Group		**Company**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Raw materials	**12,015**	8,023	**6,878**	5,342
Work in progress	**1,889**	1,458	**496**	182
Semi-finished goods	**4,424**	5,898	**857**	1,753
Finished goods	**13,346**	10,597	**5,736**	7,327
	31,674	25,976	**13,967**	14,604

NOTES TO FINANCIAL STATEMENTS

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21. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**40,987**	37,812	**23,690**	18,279
Bills receivable	**2,327**	4,556	**–**	–
	43,314	42,368	**23,690**	18,279
Impairment *(note (a))*	**(2,645)**	(3,062)	**(1,005)**	(1,005)
	40,669	39,306	**22,685**	17,274

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 180 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 end of the reporting period, based on the invoice date and net of impairment, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**35,432**	36,156	**20,171**	16,145
4 to 6 months	**3,292**	2,616	**1,118**	1,004
7 to 12 months	**1,933**	528	**1,396**	125
1 to 2 years	**12**	6	**–**	–
	40,669	39,306	**22,685**	17,274

NOTES TO FINANCIAL STATEMENTS

31 December 2010

21. 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	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
At 1 January	**3,062**	3,064	**1,005**	1,005
Impairment losses reversed	**(417)**	–	**–**	–
Amount written off as uncollectible	**–**	(2)	**–**	–
At 31 December	**2,645**	3,062	**1,005**	1,005

The individually impaired trade receivable as at 31 December 2010 related to a customer that was in financial difficulties. The Group does not hold any collateral or other credit enhancements over such balance.

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Neither past due nor impaired	**34,271**	35,739	**18,065**	15,374
Less than 1 month past due	**2,634**	2,548	**973**	935
1 to 3 months past due	**3,764**	1,019	**3,647**	965
	40,669	39,306	**22,685**	17,274

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.

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance to suppliers	**5,923**	866	**4,263**	–
Deposits and other receivables	**4,589**	4,966	**889**	2,513
Due from related companies	**293**	–	**–**	–
Dividend receivable from a subsidiary	**–**	–	**–**	1,600
	10,805	5,832	**5,152**	4,113

Included in the amounts due from related companies as at 31 December 2010 are the amounts of RMB155,000 receivable from 綿陽高新區生物醫藥孵化器有限公司 and RMB137,690 receivable from Beijing Enterprises Holdings High-Tech. Incubator Inc. The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

23. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**161,710**	95,339	**116,233**	68,215
Time deposits	**41,300**	7,800	**10,000**	–
Cash equivalents	**–**	6	**–**	6
	203,010	103,145	**126,233**	68,221
Less: Time deposits with maturity over three months	**(41,300)**	(7,800)	**(10,000)**	–
Cash and cash equivalents	**161,710**	95,345	**116,233**	68,221

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB98,560,000 (2009: RMB94,159,000). The 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.

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23. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS *(continued)*

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one and six 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.

Cash equivalents of the Group and the Company as at 31 December 2009 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.

24. TRADE PAYABLES

An aged analysis of the trade payables of the Group as at the end of the reporting period, based on invoice date, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**9,884**	6,867	**4,101**	3,869
4 to 6 months	**273**	1,029	**–**	–
7 to 12 months	**202**	678	**–**	–
1 to 2 years	**17**	105	**4**	–
Over 2 years	**216**	247	**103**	102
	10,592	8,926	**4,208**	3,971

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

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25. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Advances from customers		**2,438**	645	**637**	509
Salaries and welfare payable		**13,052**	8,774	**10,889**	7,095
Accrued expenses		**5,076**	4,160	**5,076**	4,160
Other liabilities	*(a)*	**8,772**	10,287	**2,240**	2,729
Other taxes payable		**3,208**	3,679	**2,327**	1,986
Due to a shareholder	*(b)*	**4,212**	1,799	**500**	1,000
Due to related companies	*(c)*	**1,100**	968	**183**	167
		37,858	30,312	**21,852**	17,646

Notes:

(a) Included in the Group's other liabilities as at 31 December 2010 and 31 December 2009 were government funds of RMB3 million received from the Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會, the "BMCDR"). The government funds were advanced to a 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 the Group to the government.

As at 31 December 2010 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 was classified as a current liability as at 31 December 2010 and 2009.

(b) Included in the amounts due to a shareholder as at 31 December 2010 are the accrued technical service fees of RMB500,000 (2009: RMB1,000,000) 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 of the IBP, office rental of RMB514,000 (2009: RMB799,000) payable to IBP and an advance from IBP of RMB3,198,000 (2009: Nil) for purchasing goods from the Group. Further details of the technical service fee arrangements are set out in note 34 to the financial statements.

(c) Included in the amounts due to related companies as at 31 December 2010 are the amounts of RMB917,000 (2009: RMB800,000) payable to 綿陽高新區生物醫藥孵化器有限公司 and RMB183,000 (2009: RMB168,200) payable to BioLab. The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

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26. 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 statement of financial position 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 used for research and development activities.

27. CORPORATE BONDS

On 26 August 2010, Baiao Pharmaceuticals and other 12 Small and medium enterprises located at the Zhongguancun National Innovation Demonstration Zone jointly issued the corporate bonds (2010 年中關村高新技術中小企業集合債券) with a nominal value of RMB383,000,000, of which Baiao Pharmaceuticals accounted for a principal amount of RMB20,000,000. The corporate bonds have an initial period of 6 years. However, Baiao Pharmaceuticals is obliged to repay the corporate bonds on 26 August 2013 if it cannot obtain a corporate guarantee for the corporate bonds from a third party for the period from 26 August 2013 to 26 August 2016. The corporate bonds carry interest at a rate of 5.18% per annum, which is payable yearly in arrears on 26 August.

The Group's corporate bonds as at 31 December 2010 were secured by a corporate guarantee of RMB 20,000,000 provided by 北京中關村科技擔保有限公司, a third party (the "Guarantor") up to 26 August 2013. As a condition of obtaining the guarantee, the land use right of the subsidiary, Baiao Pharmaceuticals, in the PRC and the buildings erected thereon were pledged to the Grantor (notes 14 and 15).

28. ISSUED CAPITAL

	Notes	**2010 RMB'000**	2009 RMB'000
Registered, issued and fully paid:			
67,017,528 (2009: 67,017,528) domestic shares of RMB1 each	*(a)*	**67,018**	67,018
64,286,143 (2009: 33,000,000) H shares of RMB1 each	*(b)*	**64,286**	33,000
		131,304	100,018

NOTES TO FINANCIAL STATEMENTS

31 December 2010

28. ISSUED CAPITAL *(continued)*

(a) On 10 February 2010, Beijing Enterprise Holdings High-Tech Development Co., Ltd. ("BEHT"), a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("Beijing Enterprises"), and Shanghai Fosun Pingyao Investment Management Company Limited ("Fosun Pingyao"), a wholly-owned subsidiary of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharma"), entered into a share transfer agreement, pursuant to which, BEHT agreed to sell, and Fosun Pingyao agreed to purchase from BEHT, 24,506,143 domestic shares of the Company at a price of RMB2.08 (equivalent to approximately HK$2.36) per domestic share. On 30 November 2010, the above domestic share transfer was completed.

(b) On 10 February 2010, the Company entered into an H share subscription agreement with Fosun Industrial Company., Ltd. ("Fosun Industrial"), a wholly-owned subsidiary of Fosun Pharma, pursuant to which, Fosun Industrial agreed to subscribe, and the Company agreed to allot and issue, 6,780,000 H shares of the Company at the subscription price of approximately HK$2.36 per H share.

On 10 February 2010, the Company entered into an H share subscription agreement with Beijing Enterprises pursuant to which Beijing Enterprises agreed to subscribe, and the Company agreed to allot and issue, 24,506,143 H shares of the Company at the subscription price of HK$2.36 per H share.

Pursuant to the above agreements and approval of the China Securities Regulatory Commission, the above issue of new H shares was completed in December 2010.

29. 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 42 of the financial statements.

Capital reserve

The capital reserve of the Group includes the Group's share premium of RMB49,524,000 and the non-distributable reserves of the Company and its subsidiaries created in accordance with the accounting and financial regulations of the PRC.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

29. RESERVES *(continued)*

(a) GROUP *(continued)*

Surplus reserves

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

In addition, during the year ended 31 December 2010, the Group transferred government grants of RMB877,000 (31 December 2009: RMB2,006,000) from retained profits to the statutory reserves as this is a condition of the grants.

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

Distributable reserves

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB54,414,000 (2009: RMB45,614,000), out of which a dividend of RMB13,130,000 (2009: RMB13,502,000) for the year ended 31 December 2010 was proposed on 18 March 2011. In addition, the Company's share premium account in its statutory financial statements, in the amount of RMB49,524,000 (2009: RMB18,292,000) may be distributed in the form of fully paid bonus shares.

The amount for which the Company can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with the generally accepted accounting principles in the PRC and HKFRSs

NOTES TO FINANCIAL STATEMENTS

31 December 2010

29. RESERVES *(continued)*

(b) COMPANY

	Capital reserves RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009	18,361	21,190	25,996	65,547
Total comprehensive income for the year	–	–	21,831	21,831
Transfer to statutory reserves	–	2,213*	(2,213)*	–
Proposed final 2009 dividend	–	–	(13,502)	(13,502)
At 31 December 2009 and 1 January 2010	18,361	23,403	32,112	73,876
Total comprehensive income for the year	–	–	25,398	25,398
Issue of shares	32,096	–	–	32,096
Share issue expenses	(864)	–	–	(864)
Transfer to statutory reserves	–	3,096*	(3,096)*	–
Proposed final 2010 dividend	–	–	(13,130)	(13,130)
At 31 December 2010	49,593	26,499	41,284	117,376

* The amount transferred from retained profits to the statutory reserves of RMB3,096,000 during the year ended 31 December 2010 represented the statutory surplus reserves amounting to RMB2,433,000 (2009: RMB2,213,000) and an amount of RMB663,000 which attributable to government subsidy with a condition of setting aside this amount in statutory reserves.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

30. BUSINESS COMBINATION

On 31 May 2010, the Company acquired a 56.52% equity interest in Huamei through a unilateral capital injection of RMB2,600,000. Huamei is engaged in the import and trading of diagnostic reagent products and Huamei sells these products to laboratories of domestic institutions and other companies within the Group. The acquisition was made as part of the Group's strategy to expand its market share of diagnostic products. The fair value of Huamei's net asset at the acquisition date was RMB4,880,000. The excess over the cost of business combination was recognised in the income statement.

The fair values of the identifiable assets and liabilities of Huamei as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	*14*	432
Inventories		5,037
Cash and bank balances		2,140
Trade receivables		16
Prepayments and other receivables		480
Trade payables		(1,993)
Accruals and other payables		(1,232)
Total identifiable net assets at fair value		4,880
Non-controlling interests (43.48%)		(2,122)
Gain on acquisition of a subsidiary	*5*	(158)
Satisfied by cash		2,600

NOTES TO FINANCIAL STATEMENTS

31 December 2010

30. BUSINESS COMBINATION *(continued)*

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(2,600)
Cash and bank balances acquired	2,140
Net outflow of cash and cash equivalents included in cash flows from investing activities	(460)

Since its acquisition, Huamei contributed RMB8,731,000 to the Group's revenue and a loss of RMB14,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB233,490,000 and RMB29,329,000 respectively.

31. CONTINGENT LIABILITIES

Neither the Group nor the Company had any significant contingent liabilities at the end of the reporting period.

32. PLEDGE OF ASSETS

Details of the Group's assets pledged for the guarantee from the Guarantor in respect of the issue of corporate bonds are included in notes 14 and 15 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

33. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Within one year	**1,374**	923	**100**	–
In the second to fifth years, inclusive	**1,805**	391	**302**	–
	3,179	1,314	**402**	–

34. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 33 above, the Group and the Company had the following capital commitments at the end of the reporting period:

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Contracted, but not provided for:				
Land and buildings	**17,685**	–	**17,685**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2010

34. 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, both parties will jointly engage in a pre-clinical research project for the development of a chemical drug, namely, Alprostadil for injection. Upon the completion of such pre-clinical research, the Group will have the right to obtain the ownership of the relevant clinical testing certificate and the production licence to be issued thereafter by the State Food and Drug Administration of the PRC, while the Group would 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 IBP to acquire the clinical research rights would be RMB2,500,000.

On 12 April 2010, the Group and the IBP entered into a supplementary agreement to the above Research and Development Cooperation Agreement. Pursuant to this supplementary agreement, the Group paid RMB1,000,000 to the IBP during the year of 2010 and while the remaining RMB1,500,000 would be payable in the future years.

(c) On 9 December 2004, the IBP and the Company entered into an exclusive technology licensing agreement (the "Licensing Agreement") with 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. The Company paid RMB1,000,000 to the IBP during the current year. As at 31 December 2010, the technical service fees payable by the Group of RMB500,000 (31 December 2009: RMB1,000,000) were included in the amount due to a shareholder (note 25).

35. 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	
	Notes	**2010 RMB'000**	2009 RMB'000
Operating lease rentals:			
– incurred by Zhongsheng Jinyu	*(i)*	**412**	404
– incurred by BioTrand	*(ii)*	**659**	763
Technical service fee *(note 34)*		**1,500**	500
Product processing service fee from IBP	*(iii)*	**(209)**	(260)
Products sold to the IBP	*(iv)*	**(587)**	–
Products purchased from BioLab		**–**	178

NOTES TO FINANCIAL STATEMENTS

31 December 2010

35. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

(i) The office premises of Zhongsheng Jinyu, a subsidiary of the Group, were leased from Beijing Enterprises Holdings High-Tech. Incubator Inc., a subsidiary of Beijing Enterprises, a shareholder of the Group. 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.

(ii) The office premises of BioTrand, a subsidiary of the Group, were leased from the IBP. The rental is 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 market price.

(iii) BioTrand provided product processing services to the IBP during the years ended 31 December 2010 and 2009. In the opinion of the directors, the service fee was determined by reference to the then prevailing market prices.

(iv) Huamei sold biological products to the IBP during the year ended 31 December 2010. In the opinion of the directors, the selling prices were determined by reference to the then prevailing market prices.

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

(b) The balances with a shareholder and related companies are set out in notes 22 and 25 to the financial statements.

(c) Compensation of key management personnel of the Group

	2010 **RMB'000**	2009 RMB'000
Short term employee benefits	**8,305**	6,199
Post-employment benefits	**97**	100
Total compensation paid to key management personnel	**8,402**	6,299

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

Further detail of director's emoluments are included in note 8 to the financial statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

GROUP

Financial assets

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Trade and bills receivables	**40,669**	39,306
Financial assets included in prepayments, deposits and other receivables *(note 22)*	**4,882**	4,966
Time deposits	**41,300**	7,800
Cash and cash equivalents	**161,710**	95,345
	248,561	147,417

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Trade payables	**10,592**	8,926
Financial liabilities included in other payables and accruals *(note 25)*	**29,014**	25,988
Corporate bonds	**19,801**	–
	59,407	34,914

NOTES TO FINANCIAL STATEMENTS

31 December 2010

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

COMPANY

Financial assets

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Due from subsidiaries	**300**	1,663
Trade and bills receivables	**22,685**	17,274
Financial assets included in prepayments, deposits and other receivables *(note 22)*	**889**	4,113
Time deposits	**10,000**	–
Cash and cash equivalents	**116,233**	68,221
	150,107	91,271

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Due to subsidiaries	**613**	78
Trade payables	**4,208**	3,971
Financial liabilities included in other payables and accruals *(note 25)*	**18,888**	15,151
	23,709	19,200

NOTES TO FINANCIAL STATEMENTS

31 December 2010

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bonds, 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.

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

(a) INTEREST RATE RISK

In the opinion of the directors, the Group has no significant concentration of interest rate risk other than the Group's bonds disclosed in note 27.

(b) FOREIGN CURRENCY RISK

The Group's businesses are located in Mainland China and all transactions are conducted in RMB, except that the Group occasionally purchases equipment and some in-vitro diagnostic reagent products from overseas countries for resale in Mainland China. Certain bank accounts denominated in Hong Kong dollars ("HKD") are placed in Hong Kong for receiving capital injection from new share subscription as well as payments of miscellaneous expenses such as professional fees incurred in Hong Kong.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in HKD %	Increase/ (decrease) in profit before tax RMB'000
2010		
If the RMB weakens against HKD	**5%**	**3,144**
If the RMB strengthens against HKD	**(5%)**	**(3,144)**

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

(b) FOREIGN CURRENCY RISK *(continued)*

	Increase/ (decrease) in HKD %	Increase/ (decrease) in profit before tax RMB'000
2009		
If the RMB weakens against HKD	5%	48
If the RMB strengthens against HKD	(5%)	(48)

(c) CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, time deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector. At the end of reporting period, the Group had certain concentration of credit risk as 15% (2009: 18%) of the Group's trade receivables were due from the five largest customers.

The Group performs ongoing credit evaluations of its customers' financial conditions. The allowance for doubtful debts is based upon a review of the expected collectability of all trade receivables.

The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

(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 end of the reporting period either had no fixed terms of repayment or were due for repayment within one year.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group 2010

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Corporate bonds	–	–	1,452	22,488	23,940
Trade payables	–	10,592	–	–	10,592
Financial liabilities included in other payables and accruals	4,614	23,900	500	–	29,014
	4,614	34,492	1,952	22,488	63,546

Group 2009

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	–	8,926	–	–	8,926
Financial liabilities included in other payables and accruals	4,767	20,221	1,000	–	25,988
	4,767	29,147	1,000	–	34,914

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

(d) LIQUIDITY RISK *(continued)*

Company 2010

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Due to subsidiaries	**613**	**–**	**–**	**613**
Trade payables	**–**	**4,208**	**–**	**4,208**
Financial liabilities included in other payables and accruals	**183**	**18,205**	**500**	**18,888**
	796	**22,413**	**500**	**23,709**

Company 2009

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Due to subsidiaries	78	–	–	78
Trade payables	–	3,971	–	3,971
Financial liabilities included in other payables and accruals	167	13,984	1,000	15,151
	245	17,955	1,000	19,200

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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

(e) 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 shareholders' 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 debt 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 debt required to support its planned business growth.

38. EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events taking place subsequent to 31 December 2010.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2011.

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 2010, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
REVENUE	**229,282**	212,020	200,591	174,672	147,806
PROFIT BEFORE TAX	**34,706**	34,493	31,079	29,124	27,730
TAX	**(5,339)**	(5,401)	(5,156)	(7,126)	(6,667)
PROFIT FOR THE YEAR	**29,367**	29,092	25,923	21,998	21,063
ATTRIBUTABLE TO:					
Owners of the parent	**27,647**	26,519	23,955	19,929	20,151
Non-controlling interests	**1,720**	2,573	1,968	2,069	912
	29,367	29,092	25,923	21,998	21,063

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND EQUITY

	31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**405,594**	295,739	304,120	348,672	336,772
TOTAL LIABILITIES	**(81,086)**	(57,215)	(86,786)	(145,680)	(147,048)
NET ASSETS	**324,508**	238,524	217,334	202,992	189,724
REPRESENTED BY:					
EQUITY ATTRIBUTABLE TO					
OWNERS OF THE PARENT	**288,021**	211,497	194,980	181,027	170,852
NON-CONTROLLING INTERESTS	**36,487**	27,027	22,354	21,965	18,872
TOTAL EQUITY	**324,508**	238,524	217,334	202,992	189,724