中 生 北 控 生 物 科 技 股 份 有 限 公 司

**BIOSINO BIO-TECHNOLOGY AND SCIENCE INCORPARION***

(Incorporated in the People's Republic of China with limited liability) (Stock Code : 8247)


# Annual Report 2011

* For identification purpose only

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

**The GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on the GEM.**

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*This report, for which the directors (the "Directors") of Biosino Bio-Technology and Science Incorporation (the "Company") collectively and individually accept full responsibilities, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") 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.*


CONTENTS

# 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 Chairmen and Non-executive Directors*
Dr. Gao Guang Xia
Dr. Qiao Zhicheng

*Executive Directors*
Dr. Wang Lin
Mr. Hou Quanmin

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

*Independent Non-executive Directors*
Dr. Rao Yi
Dr. Hu Canwu Kevin
Mr. John Wong Yik Chung

## SUPERVISORS

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

## AUDIT COMMITTEE

Dr. Rao Yi *(Chairman)*
Dr. Hu Canwu Kevin
Mr. John Wong Yik Chung

## REMUNERATION COMMITTEE

Dr. Rao Yi *(Chairman)*
Dr. Hu Canwu Kevin
Mr. John Wong Yik Chung

## NOMINATION COMMITTEE

Dr. Hu Canwu Kevin *(Chairman)*
Dr. Rao Yi
Mr. John Wong Yik Chung
Mr. Wu Lebin

## 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

## LEGAL ADVISERS

*As to Hong Kong law:*
Li & Partners

## 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, manufacturing, sale and distribution of in-vitro diagnostic reagents products, and providing hospital and other medical institutions with quality and reliable diagnostic reagents products.

The major equity holders of the Company have strong background. Our largest shareholder, the Institute of Biophysics of the Chinese Academy of Sciences (the "IBP"), is the leading research institution in life sciences in the PRC. 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" brand of the Group is 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 autonomous regions with more than 600 distributors. The Group's diagnostic reagents products are well received at domestic hospitals and medical institutions.

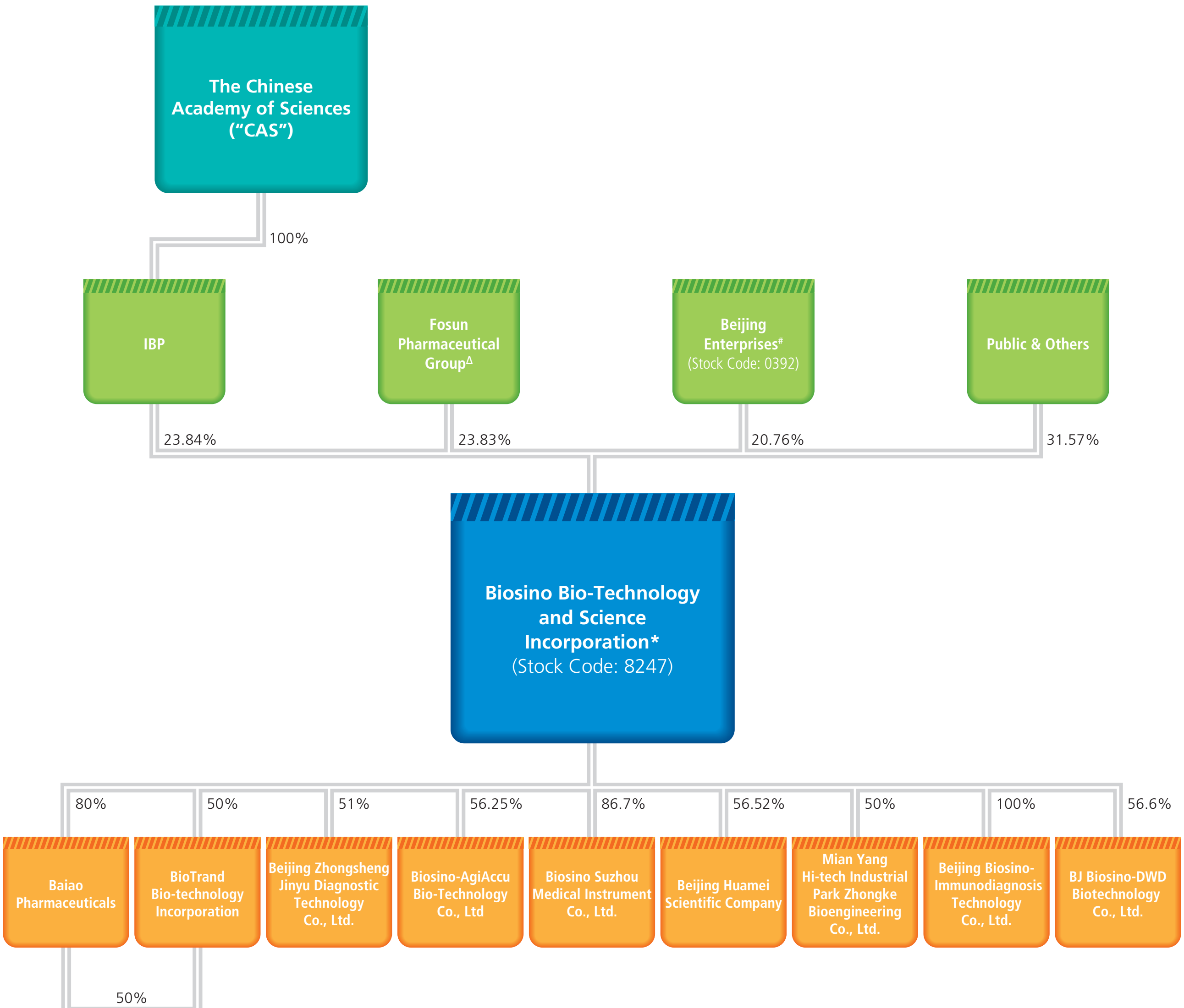
In addition, a number of management members of the Group are professors in universities or holding doctorate degrees. Upholding our business principles of "By the people, for the people; advocating innovation; unquestionable quality pursuing perfection; genuine craftsmanship and lawful operation", our management strives to strengthen our overall competitiveness. The solid scientific research background and aspiration of our management team members, some of whom had research experience in the IBP, laid down firm research foundation of Biosino Bio-Tec, which is 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 PROFILE

## GROUP STRUCTURE

*As at 20 March 2012*




* 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

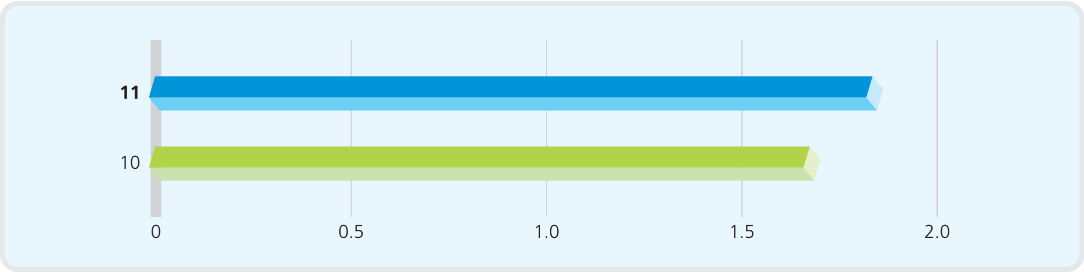
△ The 23.83% shareholding is held by the Fosun Pharmaceutical Group via Shanghai Fosun Pingyao Investment Management Company Limited (上海復星平耀投資管理有限公司) and Fosun Industrial Co., Limited (復星實業(香港)有限公司), both being wholly-owned subsidiaries of Fosun Pharmaceutical, as to 18.66% and 5.16% respectively.

# FINANCIAL HIGHLIGHTS

- Revenue for the year kept growing to RMB184 million, representing an increase of 9.5% from that of last year.
- Profit attributable to owners of the parent for the year amounted to RMB17.96 million, representing a decrease of 35% from that of last year.
- Equity attributable to owners of the parent amounted to RMB292 million, representing an increase of 1.4% from that of last year.

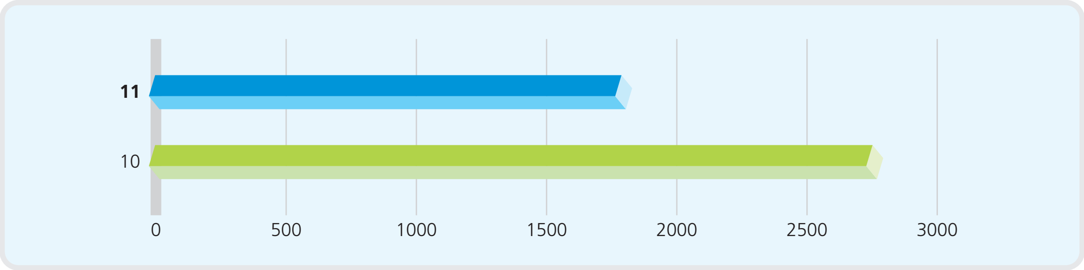
## 1. REVENUE FOR THE YEAR

*(RMB hundred million)*



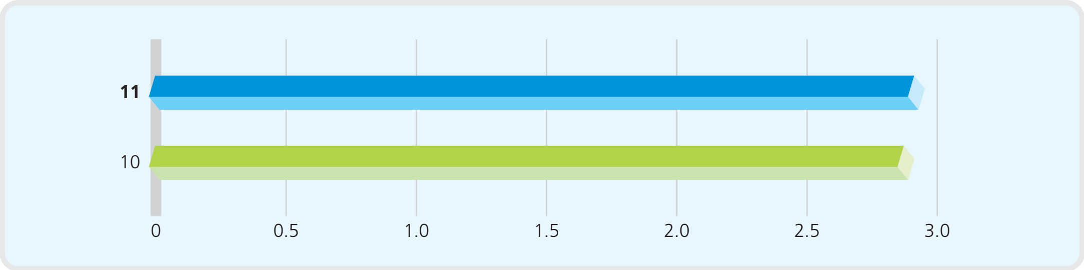

## 2. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

*(RMB ten thousand)*




## 3. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

*(RMB hundred million)*



# CHAIRMAN'S STATEMENT

## LEARNING TO BECOME AN INNOVATIVE ENTERPRISE

**Dear shareholders,**

With great pleasure and on behalf of the board of directors (the "Board") of the Company, I hereby present to you the annual report of the Group for the year ended 31 December 2011.

# CHAIRMAN'S STATEMENT

To uphold the principle of "technologies enrich living standards", the Group continues to advocate the corporate spirit of "integrity, collaboration, dedication, innovation"; continues to strive for the stable development of the enterprise by carrying out enterprise culture year activities of "Cooperative for Better Results". Throughout 2011, despite facing the challenges of unfavorable factors such as the significant reduction of sales of the products of Beijing Baiao Pharmaceuticals Co., Ltd. ("Baiao Pharmaceuticals") in Beijing region and the decrease in the growth rate in its principal businesses, the Group managed to operate its business activities in an orderly, effective and solid basis, and while enhancing its technology innovation, the Group continued to explore actively new commercial patterns and improved the industry system, striving to increase its core competitiveness.

## FINANCIAL RESULTS

During the year 2011, the revenue of the Group was RMB184 million, representing an increase of 9.5% over the same period last year. Profit attributable to owners of the parent was RMB17.96 million, representing a decrease of 35% as compared to that of last year. Cash and cash equivalents at the balance sheet date were approximately RMB133 million, showing a relatively strong cash position of the Group.

Revenue from the sale of in-vitro diagnostic reagent products grew by 9.5% from RMB168 million in 2010 to approximately RMB184 million in 2011. Research and development cost for the year amounted to approximately RMB19.06 million, accounting for 10.4% 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 2011. The Board believes that given its future financial condition and cash flow, the Group is capable of maintaining the sufficient funds required for sustainable development. During the year, there was no arrangement under which any shareholder has waived or agreed to waive any dividends.

CHAIRMAN'S STATEMENT

## BUSINESS REVIEW

In 2011, the Company and the Group basically achieved the profit targets assigned by the Board, which realised a profit before tax and net profit of RMB28.25 million and RMB18.93 million, respectively. However, the sales revenue indicator of the whole Group was lower than expected. Revenue from in-vitro diagnostic reagent business was RMB184 million, representing an increase when compared with last year. In addition, Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd. ("Zhongsheng Jinyu"), a subsidiary of the Group, recorded a 15% increase in revenue.

During the reporting period, while implementing the placing of new H shares to the Fosun Pharmaceuticals Group and Beijing Enterprises, the Company also introduced internationally advanced technologies into China through capital contribution in setting up Suzhou Otian Medical Limited（蘇州奧潤醫療科技有限公司）("Suzhou Otian"), which aimed at developing the new generation of hematology analysis instruments. In addition, as approved by the Board, the Company set up a joint venture, Zhongsheng Enji (Tianjin) Medical Food Company Limited（中生恩際（天津）醫用食品有限公司）("Zhongsheng Enji") to develop and market medical food. The co-operation with Abbott, an international Top 100 corporation, had achieved a substantial progress, actively exploring new co-operation pattern with end-user clients.

During the reporting period, the benefit from the Group's previous efforts in research and development of new products started to show, and the research and development and existing product improvement are progressing smoothly.

## PROSPECTS

With China's economy continues to develop and the establishment of universal medical insurance system, the increase in government spending on medical industry and the escalating demand in healthcare by people will promote the pharmaceutical industry into a new development period in the long run. Up to this year, the operating atmosphere and market sentiment of the industry was further improved, coupled with the substantive benefits in the pharmaceutical sector from the launching and implementation of new medical reform policies, the pharmaceutical industry will still be one of the fast growing industries in the PRC.

The Board is confident in turning the Group into a leading enterprise in the health enhancing protein industry with self-owned intellectual property rights and international competitive edges, and I sincerely hope that we can achieve an excellent business performance and maximise the returns for all of our shareholders.

With more and more market participants, market competition for the in-vitro diagnostic reagent sector is becoming more and more intense. Enterprises are also facing on-going challenges in product quality enhancement and product mix optimization. Under such environment, the Company introduced incentive measures to continue intensifying its marketing efforts, accelerate the progress in research and development, and strive to adapt to new market changes. In 2012, the Group established its yearly working target of corporate culture in **"Learning to Become an Innovative Enterprise"** to continue promoting and deepening enterprise performance culture, and increase the momentum in marketing efforts. Through solidifying its business foundation and adjusting its operation directives, the Group is striving to forge ahead under adverse conditions to allow the Company to achieve new progresses in terms of production, operation and culture construction.

CHAIRMAN'S STATEMENT

## 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
20 March 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS ENVIRONMENT

The market size of in-vitro diagnostic reagents is closely correlated with cardinal national population, medical expenditure per capita, medical insurance standard, medical technology and service standards and other factors. In recent years, with the continuous increase in medical insurance spendings and medical spending expenditure per capita, the market demand for in-vitro diagnostic reagents increases continuously in the PRC. According to the latest market report of Clinical Diagnostics in China-2011) by McEvoy & Farmer, it states that as at February 2011, the population in PRC accounts for one-fifth of the world's population but the market share of in-vitro diagnostic reagent only represents 3% globally, and the annual consumption per capita on in-vitro diagnostic reagent products is only US$1.5 in the PRC, as compared with the US$25-30 annual consumption per capita in developed countries. It is expected that China will maintain a growth rate of 15%-20% in in-vitro diagnostic reagent market in the coming years. According to the analytical forecast from institutions like Kalorama Information and McEvoy & Farmer, the market size of in-vitro diagnostic reagent in the PRC will exceed RMB13.3 billion by 2012, and double that in 2015 to RMB20.8 billion, the market development potential is enormous. The Group's bio-chemistry diagnostic reagents will still be able to maintain a higher market share with its advantages in low cost and fast response speed. Its future development direction will be focusing on the on-going improvement in product quality of existing diagnostic projects and continuous development in new diagnostic reagent projects. With the systemized products becoming more and more popular, it is expected that the bio-chemistry diagnostic reagent market in the PRC will show a high speed growth out-performing the industry average growth rates in coming years.

## BUSINESS REVIEW

### REVENUE

During 2011, as affected by industry competitors, the growth in operating revenue was unable to reach its expected target, which was mainly due to the substantial decrease in revenue of pharmaceutical products. The Group actively adjusted its corresponding strategies to enable other business segments of the Group to maintain their 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 lower than that of the previous year.


Revenue from in-vitro diagnostic reagent business increased by 9.5% to RMB184 million, a slight increase when compared with last year. In addition, Zhongsheng Jinyu, a subsidiary of the Group, recorded an increase in revenue of 15%.

## RESEARCH AND DEVELOPMENT COST

During the reporting period, the systemic assessment on rapid diagnostic project for deafness genes was completed. The relevant approval application for the cooperation project with Abbott was also completed and applications for registration for one invention patent and two trademarks were made. Biosino-AgiAccu Bio-Technology Co., Ltd.*(北京中生朗捷生物技術有限公司), a subsidiary, was the first company to obtain the product registration for drug-taking detection by saliva in PRC and probably around the world. Total research and development expenses for the year amounted to RMB19.06 million, representing an increase of 31.5% as compared to that of last year.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

During the reporting period, the profit attributable to owners of the parent was RMB17.96 million, representing a decrease of 35% from that of last year.

## PRODUCTION FACILITIES

The Group commenced the construction of "No.2 Plant Complex of Biosino Bio-Technology and Science Incorporation" project in 2010 with the approval of relevant government authorities. The project covers a total area of 24,783 square meters with a 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 project is basically completed, and currently under internal layout decoration and will commence operation soon.

## PROSPECTS AND FUTURE OUTLOOK

With China's economy continues to develop and the establishment of universal medical insurance system, the increase in government spending on medical industry and the escalating demand in healthcare by people will promote the pharmaceutical industry into a new development period in the long run. Up to this year, the operating atmosphere and market sentiment of the industry was further improved, coupled with the substantive benefits in the pharmaceutical sector from the launching and implementation of new medical reform policies, the pharmaceutical industry will still be one of the fast growing industries in the PRC.

The Board is confident in turning the Group into a leading enterprise engaging in the health enhancing protein industry with self-owned intellectual property rights and international competitive edges, and sincerely hopes that the Group can achieve an excellent business performance and maximise the returns for all shareholders.

With more and more market participants, market competition for the in-vitro diagnostic reagent sector is becoming more and more intense. Enterprises are also facing on-going challenges in product quality enhancement and product mix optimization. Under such environment, the Company introduced incentive measures to continue intensifying its marketing efforts, accelerate the progress in research and development, and strive to adapt new market changes. In 2012, the Group established its yearly working target of corporate culture in "Learning to Become an Innovative Enterprise" to continue promoting and deepening enterprise performance culture, and increase the momentum in marketing efforts. Through solidifying its business foundation and adjusting its operation directives, the Group is striving to forge ahead under adverse conditions to allow the Company to achieve new progresses in terms of production, operation and culture construction.

MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

As at 31 December 2011, the capital structure of the Company has no significant change as compared to that of last year.

## LIQUIDITY AND FINANCIAL POSITION

| | **2011**<br>**RMB million** | 2010<br>RMB million |
|---|---|---|
| Cash | **133** | 203 |
| Short-term loans | **30** | – |
| Long-term loans | **–** | – |
| Net cash | **103** | 203 |
| Net debt equity ratio | **0.1** | N/A |

The Group generally financed its operations with internally generated cash flows, capital contributions from shareholders and bank borrowings. Cash balance decreased by approximately RMB70 million, which was mainly due to the deconsolidation of Baiao Pharmaceuticals and investment in Suzhou Otian 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 payments of H share dividends and miscellaneous expenses such as professional fees incurred in Hong Kong.

## PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2011, the Group's buildings and land use right with the carrying amounts of RMB24,118,000 and RMB3,216,000 respectively were pledged to an independent third party in respect of the debt financing for Baiao Pharmaceuticals.

## CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities.

## EMPLOYEES

As at 31 December 2011, the Group had a total of 718 full-time employees (2010: 705 employees) based in Hong Kong and China. The total staff costs of the Group (including the directors' remuneration) for the year ended 31 December 2011 amounted to approximately RMB51.94 million (2010: RMB49.23 million). The Group fixes and reviews the emoluments of its staff and Directors based on their qualification, experience, performance and market rates, so as to maintain the remuneration of its staff and Directors at a competitive level. The Group participates in various defined contribution retirement plans and insurance schemes in compliance with its statutory obligations under the law and regulations of China and Hong Kong. The Directors 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 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 MEMBERS

### Annual General Meeting

The registers of members of the Company will be closed from 2 May 2012 to 22 May 2012 (both days inclusive) in order to determine the entitlement to attend the annual general meeting (the "AGM"). All properly completed H share transfer forms accompanied by the relevant share certificates must be lodged with the Company's H share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 30 April 2012, for registration.

### Entitlement to Final Dividend

The Board has recommended the payment of a final dividend of RMB0.1 per share in respect of the year ended 31 December 2011. Subject to the approval of shareholders at the forthcoming AGM, the dividend cum-date and ex-date will be 24 May 2012 and 25 May 2012 respectively. The register of members of the Company will be closed from 29 May 2012 to 31 May 2012 (both days inclusive) in order to determine the entitlement to final dividend. All properly completed H share transfer forms accompanied by the relevant share certificates must be lodged with the Company's H share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 28 May 2012, for registration. The final dividend will be payable on or about 20 July 2012.

## WITHHOLDING AND PAYMENT OF INCOME TAX FOR NON-RESIDENT ENTERPRISE SHAREHOLDERS AND NON-RESIDENT INDIVIDUAL SHAREHOLDERS IN RESPECT OF THE PROPOSED 2011 FINAL DIVIDEND

### Non-resident Corporate Shareholders

Pursuant to the Law on Corporate Income Tax of the PRC and the relevant implementing regulations, which came into force on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident corporate shareholders whose names appear on the H share register of members on 31 May 2012. The Company will distribute the final dividend to such non-resident corporate shareholders after withholding a 10% income tax. In order to determine the list of holders of H shares who are entitled to receive the final dividend, the H Share register of members of the Company will be closed from 29 May 2012 to 31 May 2012, both days inclusive, during which period no transfer of the Company's H shares will be effected. In order for holders of H Shares to be qualified for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 28 May 2012, for registration.

### Non-resident Individual Shareholders

Pursuant to the regulation promulgated by the State General Administration of Taxation of the PRC (Guo Shui Han [2011] No. 348), the Company is required to withhold and pay the non-resident individual income tax for the non-resident individual H shareholders and the non-resident individual H shareholders are entitled to certain tax preferential treatments according to the double tax treaties between those countries where the non-resident individual H shareholders are residents and China and the provisions in respect of double tax treaties between the China and Hong Kong or Macau. The Company would withhold and pay the individual income tax at the tax rates of 10% on behalf of the non-resident individual H shareholders who are Hong Kong residents, Macau residents or residents of those countries having double tax treaties with China for personal income tax rates in respect of dividend of 10%. For non-resident individual H shareholders who are residents of those countries having agreements with China for personal income tax rates in respect of dividend of lower than 10%, the Company would make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124)(《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法（試行）〉的通知》（國稅發[2009]124號）). For non-resident individual H shareholders who are residents of those countries having double tax treaties with China for personal income tax rates in respect of dividend of higher than 10% but lower than 20%, the Company would withhold the individual income tax at the agreed-upon effective tax rate. For non-resident individual H shareholders who are residents of those countries without any double tax treaties with China or having double tax treaties with China for personal income tax in respect of dividend of 20% and other situations, the Company would withhold the individual income tax at a tax rate of 20%.

In order to determine the list of holders of H shares of the Company who are entitled to receive the final dividend, the H share register of members of the Company will be closed from 29 May 2012 to 31 May 2012, both days inclusive, during which period no transfer of the Company's H shares will be effected.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Company will determine the country of domicile of the individual H shareholders based on the registered address as recorded in the register of members of the Company (the "Registered Address") on 31 May 2012 and will withhold and pay the individual income tax based on the register of members of the Company as at 31 May 2012. If the country of domicile of the individual H shareholder is not the same as the Registered Address, the individual H shareholder shall notify the Company's H share registrar and provide relevant supporting documents Company's H share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 28 May 2012, for registration. If the individual H shareholders do not provide the relevant supporting documents to the share registrar of the Company's H shares within the time period stated above, the Company will determine the country of domicile of the individual H shareholders based on the recorded Registered Address on 31 May 2012.

The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment such appropriate income tax and the final dividend will only be payable to the shareholders whose names appear on the Company's H share register of members on 31 May 2012.

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 dual roles of 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 to the GEM Listing Rules (the "Code") for the year ended 31 December 2011 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 2011, 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) 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, interim and quarterly 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, interim and quarterly accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control systems and risk management procedures, and compliance with relevant statutory requirements, rules and regulations.

Details of backgrounds and qualifications of the chairman of the Board 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 2011, the chairman of the Board 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 Pharmaceutical, and also responsible for the daily operations of the Group and Baiao Pharmaceuticals after the Company completed the disposal of 80% interest in 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 advice and contribution to the development of the Company during the year 2011.

## CORPORATE GOVERNANCE REPORT

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 Board has received an annual confirmation of independence from each of the independent non-executive directors. The Company considers all of them to be independent from the Company in accordance with the guidelines set out in Rule 5.09 of the GEM Listing Rules as at the date of this report.

During the year of 2011, the Board held a total of seven meetings, three of which were regular meetings and one of which was an interim 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** |
|---|---|---|---|
| 24 January 2011 | 10 | 7 | 70% |
| 18 March 2011 | 10 | 8 | 80% |
| 26 April 2011 | 10 | 10 | 100% |
| 1 July 2011 | 11 | 11 | 100% |
| 12 November 2011 | 11 | 11 | 100% |
| 6 December 2011 | 11 | 11 | 100% |
| 22 December 2011 | 11 | 11 | 100% |

| **Name of directors** | **Number of meetings attended** |
|---|---|
| Mr. Wu Lebin *(Chairman and executive director)* | 7/7 |
| Dr. Gao Guang Xia *(Vice chairman and Non-executive director)* | 7/7 |
| Dr. Qiao Zhicheng *(Vice chairman and Non-executive director)* | 7/7 |
| Dr. Wang Lin *(Executive director)* | 7/7 |
| Mr. Hou Quanmin *(Executive director)* | 7/7 |
| Mr. Yao Fang *(Non-executive director)* | 7/7 |
| Mr. Zuo Zhihui *(Non-executive director)* | 7/7 |
| Mr. Wang Fu Gen *(Non-executive director)* | 5/7 |
| Dr. Rao Yi *(Independent non-executive director)* | 6/7 |
| Dr. Hu Canwu Kevin *(Independent non-executive director)* | 5/7 |
| Mr. John Wong Yik Chung *(Independent non-executive director)* | 5/5 |

CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND EXECUTIVE DIRECTORS

During the year of 2011, 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 overseeing 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 2011.

## BOARD COMMITTEES

The Board has established three board committees, namely remuneration committee, audit committee and nomination committee to oversee the particular aspect of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

On 20 March 2012, the Board adopted the new written terms of reference of each committee. Such new written terms of reference are in line with the coming effective GEM Listing Rules and will be posted on the websites of the Stock Exchange and the Company by 31 March 2012.

## REMUNERATION COMMITTEE

The remuneration committee of the Company was established in accordance with the Code provisions as set out in Appendix 15 to the GEM Listing with written terms of reference. 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 2011, members of the remuneration committee include all independent non-executive directors, Dr. Rao Yi, Dr. Hu Canwu Kevin and Mr. John Wong Yik Chung, with Dr. Rao Yi as the chairman of the remuneration committee.

The remuneration committee meets regularly to determine the policy for the remuneration of directors and assess the performance of executive directors and senior management of the Company. During the year of 2011, 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. John Wong Yik Chung | 1/1 |

## DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 8 to the financial statements.

## NOMINATION COMMITTEE

The nomination committee was established on 20 March 2012. The nomination committee is responsible for, including but not limited to, reviewing the structure, size and composition of the Board and making recommendation to the Board on selection of candidates for directorships.

The nomination committee comprises an executive director, namely Mr. Wu Lebin, and three independent non-executive directors, namely Dr. Hu Canwu Kevin, Dr. Rao Yi and Mr. John Wong Yik Chung. Dr. Hu Canwu Kevin is the chairman of the nomination committee.

Since the nomination committee was established on 20 March 2012, no meeting was held by the nomination committee for the year ended 31 December 2011.

## 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 (but nor limited to):

1 supervising the accounting and financial reporting procedures 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;

## CORPORATE GOVERNANCE REPORT

3 examining and monitoring the internal control system adopted by the Group; and

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 was of the view that there was no material uncertainty that cast doubt on the Company's going concern ability. 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 2011, 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. John Wong Yik Chung | 4/4 |

The audit committee comprises all independent non-executive directors of the Company, namely Dr. Rao Yi, Dr. Hu Canwu Kevin and Mr. John Wong Yik Chung, of which Dr. Rao Yi is the chairman. 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 2011.

## 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. For the year ended 31 December 2011, 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 41.

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 meetings 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 2011.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture, sale and distribution of in-vitro diagnostic reagent products. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 51.

The directors recommend the payment of a final dividend of RMB0.1 per share in respect of the year to shareholders whose names appear on the register of members on 31 May 2012. Upon approval by the shareholders, the final dividend will be paid on or about 20 July 2012. 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 123 to 124. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

## SHARE CAPITAL

During the year, there was no charge in the Company's registered and issued share capital.

## 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 33(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 2011, amounted to approximately RMB60,700,000, 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 33(b) to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers of RMB30,104,000, accounted for 16.2% of the total sales for the year and sales to the largest customer included therein amounted to 5.1%. Purchases from the Group's five largest suppliers of RMB29,560,000, accounted for 50% of the total purchases for the year and purchases from the largest supplier included therein amounted to 24%. 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.

REPORT OF THE DIRECTORS

## DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year are as follows:

### CHAIRMAN AND EXECUTIVE DIRECTOR:

Mr. Wu Lebin

### VICE CHAIRMEN AND NON-EXECUTIVE DIRECTORS:

Dr. Gao Guang Xia
Dr. Qiao Zhicheng

### EXECUTIVE DIRECTORS:

Dr. Wang Lin
Mr. Hou Quanmin

### NON-EXECUTIVE DIRECTORS:

Mr. Yao Fang
Mr. Zuo Zhihui
Mr. Wang Fu Gen

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Rao Yi
Dr. Hu Canwu Kevin
Mr. John Wong Yik Chung

### SUPERVISORS:

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

## 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 GEM Listing Rules, and as at the date of this report, the Board 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 35 to 40 of this report.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

REPORT OF THE DIRECTORS

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the interests of the directors or supervisors ("supervisors") of the Company 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 2011, 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 2011.

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

As at 31 December 2011, as far as is known to any directors and supervisors of the Company, other than the interest of the directors or supervisors as disclosed under the section headed "Directors' and Supervisors' Interests in Shares and Underlying Shares" above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise nonified to the Company and the Stock Exchange:

## 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% |

REPORT OF THE DIRECTORS

## 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 | | 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 | |
| Fosun Industrial Co., Limited# | Directly beneficially owned | – | 6,780,000 | 0.00% | 10.55% | 5.16% |
| Beijing Enterprises Holdings Limited^ | Directly beneficially owned | – | 27,256,143 | 0.00% | 42.40% | 20.76% |
| Beijing Enterprises Group Company Limited | Through controlled corporations | – | 27,256,143 | 0.00% | 42.40% | 20.76% |

# 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 as to 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 pursuant to the SFO.

Save as disclosed above, as far as is known to any directors or supervisors of the Company, as at 31 December 2011, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## 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 to the GEM Listing Rules (the "Code") for the year ended 31 December 2011 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 dual roles of 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.

## COMPETING INTERESTS

During the year and up to the date of this report, none of the directors, supervisors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in any business that competes or may compete, either directly or indirectly, with the business of the Group, nor any conflicts of interest which has or may have with the Group.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in note 38 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.

REPORT OF THE DIRECTORS

## MATERIAL ACQUISITIONS AND DISPOSAL

On 13 May 2011, the Company, Shanghai Shenjia Medical Co., Ltd.（上海申家醫療器械有限公司）("Shanghai Shenjia"), Jean-Edouard Robert, Philippe Daire and Suzhou Otian entered into a capital increase agreement, pursuant to which the Company agreed to make a capital contribution in the amount of RMB30 million in cash to the registered capital of Suzhou Otian while Shanghai Shenjia, Jean-Edouard Robert and Philippe Daire agreed to make capital contribution to the registered capital of Suzhou Otian by way of injection of certain intangible assets in the amount of RMB51.71 million. Upon completion of the aforesaid capital contributions, Suzhou Otian has a registered capital of RMB85.71 million which is owned by the Company, Shanghai Shenjia, Jean-Edouard Robert and Philippe Daire as to 35%, 21.8%, 21.6% and 21.6%, respectively. Suzhou Otian is classified as a jointly controlled entity of the Company in the Group's financial statements.

On 12 November 2011, the Company and Renhe (Group) Development Co., Ltd.（仁和（集團）發展有限公司）("Renhe Group") entered into an equity transfer agreement pursuant to which the Company agreed to sell, and Renhe Group agreed to purchase from the Company, 80% equity interest in Baiao Pharmaceuticals at a consideration of RMB78,470,560. Baiao Pharmaceuticals is principally engaged in manufacturing, selling and distribution of pharmaceutical products. The disposal has been approved by the shareholders of the Company at the extraordinary general meeting held on 15 February 2012. Upon completion of the disposal, the Company will not hold any interest in Baiao Pharmaceuticals, and Baiao Pharmaceuticals will cease to be a subsidiary of the Company. As at 31 December 2011, Baiao Pharmaceuticals was classified as a disposal group held for sale in the consolidated statement of financial position of the Group and the investment in Baiao Pharmaceuticals was classified as a non-current asset held for sale in the statement of financial position of the Company.

## EVENTS AFTER REPORTING PERIOD

On 9 January 2012, the Company, Cangzhou Enji Bioproduct Co., Ltd.（滄州恩際生物製品有限公司）("Cangzhou Enji") and Guoen (Tianjin) Technology Development Company Limited（國恩（天津）科技發展有限公司）("Tianjin Enji") entered into an investment agreement (the "Investment Agreement"), pursuant to which the parties agreed to jointly establish Zhongsheng Enji (Tianjin) Medical Food Company Limited ("Zhongsheng Enji") in Tianjin, the PRC. Zhongsheng Enji will be principally engaged in research and development, production and sale of medical, healthcare, organic and clinical food products. Pursuant to the Investment Agreement, the Company, Cangzhou Enji and Tianjin Enji agreed to contribute RMB24 million, RMB20 million and RMB6 million respectively to the registered capital of Zhongsheng Enji. Upon establishment of Zhongsheng Enji, it will have a registered capital of RMB60 million which is owned by the Company, Cangzhou Enji and Tianjin Enji as to 48%, 40% and 12% respectively.

## AUDITORS

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

ON BEHALF OF THE BOARD

**Wu Lebin**
*Chairman*

Beijing, the People's Republic of China
20 March 2012

# 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 2011 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 2012 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
20 March 2012

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## CHAIRMAN OF THE BOARD

**Mr. Wu Lebin（吳樂斌先生）**, aged 49, is the Chairman, an executive director and the president of the Company. 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 46, 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.

**Dr. Qiao Zhicheng（喬志城博士）**, aged 39, is the Vice Chairman and a non-executive director of the Company. He 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）. As of the date of this report, Shanghai Fosun Pharmaceutical (Group) Co., Ltd. had interests in 23.83% of the total registered capital of the Company. Mr. Qiao joined the Company in January 2011.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Dr. Wang Lin（王琳博士）**, aged 44, is an executive director 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. Dr. Wang 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 45, 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. Yao Fang（姚方先生）**, aged 42, is a non-reactive director of the Company. Mr. Yao 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）, 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, 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）, 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. As of the date of this report, Shanghai Fosun Pharmaceutical (Group) Co., Ltd. had interests in 23.83% of the total registered capital of the Company. Mr. Yao joined the Company in January 2011.

**Mr. Zuo Zhihui（左志輝先生）**, aged 47, is an non-executive director of the Company. Mr. Zuo 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. As of the date of this report, Shanghai Fosun Pharmaceutical (Group) Co., Ltd. had interests in 23.83% of the total registered capital of the Company. Mr. Zuo joined the Company in January 2011.

**Mr. Wang Fugen (王福根先生)**, aged 48, is an engineer and a non-executive director of the Company. Mr. Wang studied a postgraduate 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.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Rao Yi (饒毅博士)**, aged 49, 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.

**Dr. Hu Canwu Kevin (胡燦武博士)**, male, aged 36, 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. John Wong Yik Chung (黃翼忠先生)**, aged 45, is a qualified accountant by training with more than 20 years of experience in auditing and corporate finance work, with extensive exposure to the business enterprises in the PRC. He had served at PricewaterhouseCoopers, Arthur Anderson, Ernst & Young and Deloitte & Touche Corporate Finance Limited. Mr. Wong is currently a partner of Vantage Consulting Group and a director and senior consultant of TMF China. Mr. Wong is also an independent non-executive director of Ecogreen Fine Chemicals Group Limited (stock code: 2341), Golden Resources Development International Limited (stock code: 677) and Beijing North Star Company Limited (stock code: 588), all being companies listed on the main board of the Stock Exchange, an independent non-executive director of CDW Holdings Limited, a company listed on the Singapore Stock Exchange, and an independent director of Yangguang Co. Ltd., a company listed on the Shenzhen Stock Exchange. He was an independent director of General Steel Holdings Inc., a company listed on the New York Stock Exchange between June 2006 and March 2010. Mr. Wong graduated from the University of Melbourne. He is a fellow member of each of the Australian Society of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He also obtained a PRC Certificate of Independent Directorship in 2002. Mr. Wong joined the Company in March 2011.

## SUPERVISORS

**Dr. He Rongqiao (赫榮喬博士)**, aged 57, is the Chairman of the Supervisory Committee 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

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 53, 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. Mr. Shao is currently the vice officer of the president's office of the Company. Mr. Shao joined the Company in January 2004.

**Ms. Guan Xiaohui（關曉暉女士）**, aged 40, 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.. As of the date of this report, Shanghai Fosun Pharmaceutical (Group) Co., Ltd. had interests in 23.83% of the total registered capital of the Company. Ms. Guan joined the Company in January 2011.

## SENIOR MANAGEMENT

**Mr. Zhou Jie（周潔先生）**, aged 49, 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 45, 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 49, 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.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Ms. Wang Jianqing (王建清女士)**, aged 48, 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 joined the Company in August 2004.

**Ms. Gao Jie (高潔女士)**, aged 45, is the Vice President of the Company and is responsible for the enterprise planning of the Company and government affairs. Ms. Gao obtained a Bachelor's Degree in Medicine in pediatric medicine from China Medical University (中國醫科大學) and a Master's Degree in Public Administration in MPA from the School of Public Administration in Tsinghua University (清華大學). Since July 1990, Ms. Gao successively worked as a Resident Physician and the Physician-in-Charge of the Intensive Care Unit (ICU) of Capital Institute of Pediatrics (首都兒科研究所), and Human Resources Supervisor and Project Manager of Beijing Sunshine Real Estate Comprehensive Development Company under the Capital Group (首都創業集團陽光房地產開發公司) respectively. Ms. Gao was Assistant Researcher, Deputy Director and Director of Medical Equipment Division (醫療器械處) of Beijing Drug Administration (北京市藥品監督管理局) from June 2000 to July 2006. She was the Director of Product Registry of the Department of Medical Equipment (醫療器械司產品註冊處) and Director of Registry I of the Department of Medical Equipment (醫療器械監管司註冊一處) of the State Food and Drug Administration (國家食品藥品監督管理局) after July 2006. Ms. Gao joined the Company in November 2011.

**Mr. Jiang Hongyan (姜鴻雁先生)**, aged 42, is the Chief Financial Officer of the Company. Mr. Jiang obtained a Bachelor's Degree in Accounting from The Central University of Finance and Economics (中央財金大學) and a Master's Degree in Business Administration from National University of Singapore (新加坡國立大學), an associate member of the Association of Chartered Certified Accountants of the United Kingdom (ACCA). Since March 2003, he worked successively in the position of Chief Financial Officer of Beijing Origin Seed Technology Inc. (北京奧瑞金種業股份有限公司), Beijing Zhengluejunce Enterprise Management Consultancy Co., Ltd. (北京正略鈞策企業管理諮詢有限公司) and Beijing Lüsejinke Bio-Technology Co., Ltd.* (北京綠色金可生物技術股份有限公司) respectively. Mr. Jiang joined the Company in July 2011.

**Dr. Xu Cunmao (許存茂博士)**, aged 49, is the Secretary of the Board of the Company and is responsible for the overseas investment functions of the Company. Dr. Xu obtained a Bachelor's Degree in Science and a Master's Degree in Science in economic geography from Northwest Normal University (西北師範大學), and a Ph.D Degree in Science in regional economic geography from Northeast Normal University (東北師範大學). He was Associate Professor of the School of Economics in Hainan University (海南大學), Executive Deputy General Manager of Hainan Nanxi Industrial Co., Ltd.* (海南南茜實業股份有限公司), Executive Deputy General Manager of Beijing Beida Nanxi Bio-Engineering Co., Ltd.* (北京北大南茜生物工程有限公司), General Manager of Shanghai Guangkong Industrial Investment Co., Ltd.* (上海廣控實業投資有限公司) and General Manager of PKU Weiming Diagnostics Co., Ltd. (北大未名診斷試劑有限公司). Dr. Xu Cunmao joined the Company in 2003.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## COMPANY SECRETARY

**Mr. Tung Woon Cheung Eric**（董渙樟先生）, aged 40, 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 32, 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 certified public accountant of Hong Kong Institute of Certified Public Accountants. He has over 9 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

ERNST & YOUNG
安 永

**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 43 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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

**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 2011, 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*
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
20 March 2012

# CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2011*

| | Notes | 2011 RMB'000 | 2010 RMB'000 Restated |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **REVENUE** | *5* | **184,153** | 168,355 |
| Cost of sales | | **(77,596)** | (67,556) |
| Gross profit | | **106,557** | 100,799 |
| Other income and gains | *5* | **10,792** | 11,869 |
| Selling and distribution expenses | | **(32,175)** | (29,132) |
| Administrative expenses | | **(32,647)** | (34,177) |
| Research and development expenses | | **(19,062)** | (14,491) |
| Other expenses | | **(3,733)** | (562) |
| Finance costs | *7* | **(962)** | (31) |
| Share of losses of | | | |
| A jointly-controlled entity | | **(148)** | – |
| Associates | | **(370)** | (403) |
| **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** | *6* | **28,252** | 33,872 |
| Income tax expense | *10* | **(4,576)** | (5,339) |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | | **23,676** | 28,533 |
| **DISCONTINUED OPERATION** | | | |
| (Loss)/profit for the year from a discontinued operation | *12* | **(4,748)** | 834 |
| **PROFIT FOR THE YEAR** | | **18,928** | 29,367 |
| Attributable to: | | | |
| Owners of the parent | *11* | **17,956** | 27,647 |
| Non-controlling interests | | **972** | 1,720 |
| | | **18,928** | 29,367 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic and diluted | *14* | **RMB0.14** | RMB0.27 |

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2011*

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **18,928** | 29,367 |
| Attributable to: | | | |
| Owners of the parent | 11 | **17,956** | 27,647 |
| Non-controlling interests | | **972** | 1,720 |
| | | **18,928** | 29,367 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2011*

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **86,142** | 102,723 |
| Prepaid land lease payments | 16 | **3,634** | 6,951 |
| Goodwill | 17 | **309** | 309 |
| Other intangible assets | 18 | **11,294** | 6,545 |
| Investment in a jointly-controlled entity | 20 | **29,852** | – |
| Investments in associates | 21 | **2,361** | 2,731 |
| Deferred tax assets | 22 | **295** | – |
| Total non-current assets | | **133,887** | 119,259 |
| CURRENT ASSETS | | | |
| Inventories | 23 | **32,315** | 31,674 |
| Trade and bills receivables | 24 | **34,343** | 40,669 |
| Prepaid land lease payments | 16 | **105** | 177 |
| Prepayments, deposits and other receivables | 25 | **11,876** | 10,805 |
| Cash and cash equivalents | 26 | **133,489** | 203,010 |
| | | **212,128** | 286,335 |
| Assets of a disposal group classified as held for sale | 12 | **110,549** | – |
| Total current assets | | **322,677** | 286,335 |
| CURRENT LIABILITIES | | | |
| Trade payables | 27 | **9,393** | 10,592 |
| Other payables and accruals | 28 | **44,282** | 37,858 |
| Interest-bearing bank borrowing | 29 | **30,000** | – |
| Taxes payable | | **784** | 1,050 |
| | | **84,459** | 49,500 |
| Liabilities directly associated with the assets classified as held for sale | 12 | **29,724** | – |
| Total current liabilities | | **114,183** | 49,500 |
| NET CURRENT ASSETS | | **208,494** | 236,835 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **342,381** | 356,094 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2011*

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **342,381** | 356,094 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income | 30 | **10,675** | 11,785 |
| Corporate bonds | 31 | **–** | 19,801 |
| Total non-current liabilities | | **10,675** | 31,586 |
| Net assets | | **331,706** | 324,508 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 32 | **131,304** | 131,304 |
| Reserves | 33(a) | **147,967** | 143,587 |
| Proposed final dividend | 13 | **13,130** | 13,130 |
| | | **292,401** | 288,021 |
| **Non-controlling interests** | | **39,305** | 36,487 |
| Total equity | | **331,706** | 324,508 |

**Wu Lebin**
*Director*

**Wang Lin**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Year ended 31 December 2011*

| | | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Notes* | **Issued capital** RMB'000 *Note 32* | **Capital reserve** RMB'000 *Note 33(a)* | **Statutory reserve** RMB'000 *Note 33(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 | | 31,286 | 32,096 | – | – | – | 63,382 | – | 63,382 |
| Share issue expenses | | – | (864) | – | – | – | (864) | – | (864) |
| Unilateral capital contributions to subsidiaries | | – | (139) | – | – | – | (139) | 139 | – |
| Transfer to statutory reserves | | – | – | 3,535 | (3,535) | – | – | – | – |
| Final 2009 dividend declared | *13* | – | – | – | – | (13,502) | (13,502) | – | (13,502) |
| Proposed 2010 final dividend | *13* | – | – | – | (13,130) | 13,130 | – | – | – |
| At 31 December 2010 | | 131,304 | 62,219* | 35,843* | 45,525* | 13,130 | 288,021 | 36,487 | 324,508 |
| At 1 January 2011 | | **131,304** | **62,219** | **35,843** | **45,525** | **13,130** | **288,021** | **36,487** | **324,508** |
| Profit and total comprehensive income for the year | | **–** | **–** | **–** | **17,956** | **–** | **17,956** | **972** | **18,928** |
| Dividend paid to non-controlling interests | | **–** | **–** | **–** | **–** | **–** | **–** | **(4,900)** | **(4,900)** |
| Final 2010 dividend declared | *13* | **–** | **–** | **–** | **–** | **(13,130)** | **(13,130)** | **–** | **(13,130)** |
| Capital contributions from non-controlling interests | | **–** | **–** | **–** | **–** | **–** | **–** | **6,300** | **6,300** |
| Unilateral capital contribution to a subsidiary | | **–** | **(446)** | **–** | **–** | **–** | **(446)** | **446** | **–** |
| Transfer to statutory reserves | | **–** | **–** | **2,781** | **(2,781)** | **–** | **–** | **–** | **–** |
| Proposed 2011 final dividend | *13* | **–** | **–** | **–** | **(13,130)** | **13,130** | **–** | **–** | **–** |
| At 31 December 2011 | | **131,304** | **61,773*** | **38,624*** | **47,570*** | **13,130** | **292,401** | **39,305** | **331,706** |

* These reserve accounts comprise the consolidated reserves of RMB147,967,000 (2010: RMB143,587,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*Year ended 31 December 2011*

| | Notes | 2011 RMB'000 | 2010 RMB'000 Restated |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | | |
| From continuing operations | | **28,252** | 33,872 |
| From a discontinued operation | | **(4,748)** | 834 |
| Adjustments for: | | | |
| Finance costs | 7 | **2,098** | 723 |
| Share of loss of a jointly-controlled entity | | **148** | – |
| Share of losses of associates | | **370** | 403 |
| Gain on disposal of items of property, plant and equipment, net | 6 | **(7)** | (9) |
| Bank interest income | 5 | **(2,382)** | (1,159) |
| Bond issuance expenses | | **–** | 172 |
| Gain on an acquisition of a subsidiary | 5 | **–** | (158) |
| Depreciation | 6 | **14,306** | 13,796 |
| Recognition of prepaid land lease payments | 6 | **173** | 173 |
| Amortisation of other intangible assets | 6 | **1,209** | 949 |
| Reversal of impairment of trade and bills receivables, net | 6 | **–** | (417) |
| Reversal of impairment of other receivables, net | 6 | **–** | (20) |
| Exchange loss, net | | **2,132** | 550 |
| | | **41,551** | 49,709 |
| Increase in inventories | | **(9,083)** | (661) |
| Increase in trade and bills receivables | | **(5,871)** | (930) |
| Increase in prepayments, deposits and other receivables | | **(2,804)** | (4,473) |
| Decrease in trade payables | | **(115)** | (327) |
| Increase in other payables and accruals | | **8,960** | 6,972 |
| Increase/(decrease) in deferred income | | **1,536** | (5,552) |
| Cash generated from operations | | **34,174** | 44,738 |
| Income tax paid | | **(4,771)** | (4,929) |
| Interest received | | **2,382** | 1,159 |
| Net cash flows from operating activities | | **31,785** | 40,968 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*Year ended 31 December 2011*

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Net cash flows from operating activities | | **31,785** | 40,968 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(40,489)** | (9,464) |
| Additions to other intangible assets | | **(6)** | (155) |
| Proceeds from disposal of items of property, plant and equipment | | **97** | 357 |
| Increase in time deposits | | **(43)** | (33,500) |
| Acquisition of a subsidiary | | **–** | (460) |
| Investment in a jointly-controlled entity | *20* | **(30,000)** | – |
| Net cash flows used in investing activities | | **(70,441)** | (43,222) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | **–** | 63,382 |
| Share issue expenses | | **–** | (664) |
| Proceeds from issue of corporate bonds | | **–** | 20,000 |
| New bank loans | | **30,000** | 10,000 |
| Bond issue expenses | | **–** | (716) |
| Capital contributions from non-controlling shareholders | | **300** | 1,047 |
| Repayment of bank loans | | **–** | (10,000) |
| Dividend paid | | **(13,130)** | (13,502) |
| Interest paid | | **(1,998)** | (378) |
| Net cash flows from financing activities | | **15,172** | 69,169 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **(23,484)** | 66,915 |
| Cash and cash equivalents at beginning of year | | **161,710** | 95,345 |
| Effect of foreign exchange rate changes, net | | **(2,132)** | (550) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **136,094** | 161,710 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | *26* | **92,146** | 161,710 |
| Cash and cash equivalents as stated in the statement of financial position | | **92,146** | 161,710 |
| Cash and short term deposits attributable to a discontinued operation | *12* | **43,948** | – |
| Cash and cash equivalents as stated in the statement of cash flows | | **136,094** | 161,710 |

# STATEMENT OF FINANCIAL POSITION

*31 December 2011*

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **74,094** | 44,796 |
| Prepaid land lease payments | 16 | **3,144** | 3,224 |
| Other intangible assets | | **–** | 65 |
| Investments in subsidiaries | 19 | **39,600** | 70,783 |
| Investment in a jointly-controlled entity | 20 | **30,000** | – |
| Investments in associates | 21 | **2,361** | 4,000 |
| Deferred tax assets | 22 | **295** | – |
| Total non-current assets | | **149,494** | 122,868 |
| CURRENT ASSETS | | | |
| Inventories | 23 | **16,085** | 13,967 |
| Due from subsidiaries | 19 | **6,131** | 300 |
| Prepaid land lease payments | 16 | **75** | 75 |
| Trade and bills receivables | 24 | **28,391** | 22,685 |
| Prepayments, deposits and other receivables | 25 | **5,436** | 5,152 |
| Cash and cash equivalents | 26 | **90,248** | 126,233 |
| | | **146,366** | 168,412 |
| Asset as held for sale | 19 | **43,683** | – |
| Total current assets | | **190,049** | 168,412 |
| CURRENT LIABILITIES | | | |
| Due to subsidiaries | 19 | **287** | 613 |
| Trade payables | 27 | **4,381** | 4,208 |
| Other payables and accruals | 28 | **24,526** | 21,852 |
| Interest-bearing bank borrowing | 29 | **30,000** | – |
| Taxes payable | | **494** | 547 |
| Total current liabilities | | **59,688** | 27,220 |
| NET CURRENT ASSETS | | **130,361** | 141,192 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **279,855** | 264,060 |

## STATEMENT OF FINANCIAL POSITION

*31 December 2011*

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| NON-CURRENT LIABILITY | | | |
| Deferred income | 30 | **4,489** | 2,250 |
| Total non-current liability | | **4,489** | 2,250 |
| Net assets | | **275,366** | 261,810 |
| EQUITY | | | |
| Issued capital | 32 | **131,304** | 131,304 |
| Reserves | 33(b) | **130,932** | 117,376 |
| Proposed final dividend | 13 | **13,130** | 13,130 |
| Total equity | | **275,366** | 261,810 |

**Wu Lebin**
*Director*

**Wang Lin**
*Director*

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 1. CORPORATE INFORMATION

Biosino Bio-Technology and Science Incorporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 27, Chaoqian Road, Science and Technology Industrial Park, Changping District, Beijing, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as 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 financial 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

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that 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 resulting 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 2011*

## 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 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* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| *Improvements to HKFRSs 2010* | Amendments to a number of HKFRSs issued in May 2010 |

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of new and revised HKFRSs has had no significant financial effect on these financial statements.

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

### (a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 38 to the consolidated financial statements.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 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 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*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1] |
| | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKFRS 10 | *Consolidated Financial Statements*[4] |
| HKFRS 11 | *Joint Arrangements*[4] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[4] |
| HKFRS 13 | *Fair Value Measurement*[4] |
| HKAS 1 Amendments | Amendments to HKFRS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3] |
| HKAS 12 Amendments | Amendment to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2] |
| HKAS 19 (2011) | *Employee Benefits*[4] |
| HKAS 27 (2011) | *Separate Financial Statements*[4] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures*[4] |
| HKAS 32 Amendments | Amendment to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5] |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[4] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12 and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 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 that are not classified as held for sale in accordance with HKFRS 5 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 or 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, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(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 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Jointly-controlled entities

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

The Group's investments in jointly-controlled entities 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 jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

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

### Associates

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

The Group's 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations and goodwill *(Continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

### Impairment of non-financial assets

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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties

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

(a) the party is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 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 depreciates them accordingly.

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% |
| Machinery | 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 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

### 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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Lease

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. 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.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

### 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 transaction costs, except in the case of financial assets at fair value through profit or loss.

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 cash equivalents, time deposits, trade and bills receivables and other receivables.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets *(Continued)*

***Subsequent measurement***

The subsequent measurement of loans and receivables is as follows:

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 finance costs for loans and in other expenses for receivables.

### 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When the Group 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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 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.

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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank borrowing and corporate bonds.

***Subsequent measurement***

The subsequent measurement of loans and receivables is as follows:

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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Derecognition of financial liabilities

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

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

### 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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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.

### 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:

- when 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, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- when 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.

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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

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

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

(ii) from the rendering of services, on the percentage of completion basis. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;

(iii) 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

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

### Employee benefits

***Pension scheme***

In accordance with the rules and regulations in the PRC, the employees of the Group participate in a defined contribution pension 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 central pension scheme. The employer contributions vest fully with the employee once made.

### Borrowing costs

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

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 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:

***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 transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

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

***Useful lives and residual values of property, plant and equipment***

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

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Judgements and estimation uncertainty *(Continued)*

***Impairment of non-financial assets (other than goodwill)***

The Group assesses whether there are any indicators of impairment for all non-financial assets at 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.

***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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services.

Pursuant to the equity transfer agreement entered into on 12 November 2011 and the resolution made by the extraordinary general meeting of the Company's shareholders held on 15 February 2012, the Company will dispose of Beijing Baiao Pharmaceuticals Company Limited ("Baiao Pharmaceuticals"), a subsidiary of the Company, which is principally engaged in manufacturing, selling and distribution of pharmaceutical products. As Baiao Pharmaceuticals has been classified as a disposal group held for sale and its results have been presented as a discontinued operation *(note 12)*, for the current year the group has one reportable operating segment: the in-vitro diagnostic reagent products segment, which manufactures, sells and distributes a variety of mono/double diagnostic reagent products.

Management monitors the operating results of its business units as a whole for the purpose of making decisions about resources allocation of performance assessment. All of the Group's revenue from external customers and profits from continuing operations are generated from this single segment.

### 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 2010 and 2011, 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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 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 tax and surcharges during the year.

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

| | **2011** **RMB'000** | 2010 RMB'000 Restated |
|---|---|---|
| Revenue | | |
| Sale of in-vitro diagnostic reagent products | **184,153** | 168,355 |
| Other income | | |
| Bank interest income | **1,382** | 1,039 |
| Government subsidies | **6,172** | 10,184 |
| Service income | **1,082** | – |
| Sale of semi-finished products | **583** | – |
| Others | **1,133** | 479 |
| | **10,352** | 11,702 |
| Gains | | |
| Gain on disposal of items of property, plant and equipment | **53** | 9 |
| Write-off of trade payables | **387** | – |
| Gain on an acquisition of a subsidiary | **–** | 158 |
| | **440** | 167 |
| | **10,792** | 11,869 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

| | *Notes* | **2011 RMB'000** | 2010 RMB'000 Restated |
|---|---|---|---|
| Cost of inventories sold | | **77,596** | 67,556 |
| Employee benefit expense (including directors' and supervisors' remuneration *(note 8)*): | | | |
| Wages, salaries and bonuses | | **38,999** | 37,680 |
| Pension scheme contributions *(note i)* | | **4,249** | 3,363 |
| Social welfare and other costs | | **8,692** | 8,188 |
| | | **51,940** | 49,231 |
| Research and development costs | | **19,062** | 14,491 |
| Less: Government grants released | | **(6,172)** | (10,184) |
| | | **12,890** | 4,307 |
| Gain on disposal of items of property, plant and equipment, net | *5* | **(53)** | (9) |
| Minimum lease payments under operating leases in respect of land and buildings | | **2,377** | 608 |
| Auditors' remuneration | | **900** | 900 |
| Depreciation | *15* | **14,306** | 13,796 |
| Amortisation of prepaid land lease payments | *16* | **173** | 173 |
| Amortisation of other intangible assets | *18* | **1,209** | 949 |
| Foreign exchange differences, net | | **2,132** | 550 |

(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% (2010: 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 2011*

## 7. FINANCE COSTS

| | 2011 RMB'000 | 2010 RMB'000 Restated |
|---|---|---|
| Interest on bank loans wholly repayable within 5 years | **962** | 31 |

## 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 | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Fees | **384** | 413 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **2,885** | 3,304 |
| Pension scheme contributions | **10** | 12 |
| | **2,895** | 3,316 |
| | **3,279** | 3,729 |

### (a) Independent non-executive directors

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Dr. Rao Yi | **60** | 60 |
| Dr. Hu Canwu Kevin | **60** | 60 |
| Mr. John Wong Yik Chung | **50** | – |
| Mr. Chan Yiu Kwong | **–** | 43 |
| | **170** | 163 |

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 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 |
|---|---|---|---|---|
| **2011** | | | | |
| Executive directors: | | | | |
| Mr. Wu Lebin | – | 1,725 | – | 1,725 |
| Dr. Wang Lin | 25 | 516 | – | 541 |
| Mr. Hou Quanmin | 25 | 477 | – | 502 |
| Non-executive directors: | | | | |
| Dr. Gao Guangxia | 25 | – | – | 25 |
| Mr. Wang Fugen | 25 | – | – | 25 |
| Mr. Yao Fang | 25 | – | – | 25 |
| Dr. Qiao Zhicheng | 25 | – | – | 25 |
| Mr. Zuo Zhihui | 25 | – | – | 25 |
| Supervisors: | | | | |
| Dr. He Rongqiao | 21 | – | – | 21 |
| Ms. Guan Xiaohui | 18 | – | – | 18 |
| Mr. Shao Yimin | – | 167 | 10 | 177 |
| | 214 | 2,885 | 10 | 3,109 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 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 |
|---|---|---|---|---|
| 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 |

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year (2010: Nil).

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2010: two) non-directors/supervisors, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | | Restated |
| Salaries, allowances and benefits in kind | **1,538** | 1,041 |
| Pension scheme contributions | **36** | 23 |
| | **1,574** | 1,064 |

The remuneration of each of the three (2010: two) non-directors/supervisors, 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% (2010: 25%) for the year under the income tax rules and regulations of the PRC, except that the Company and certain subsidiaries are subject to a preferential rate of 15% under the PRC Income Tax Law for a period of three years commencing 1 January 2011 or 1 January 2009 as they are assessed by relevant government authorities as High and New Technology Enterprises ("HNTE").

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 (2010: Nil).

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

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| | | Restated |
| Group: | | |
| Current – the PRC | **4,870** | 5,159 |
| Adjustments in respect of current tax of previous periods | **1** | 180 |
| Deferred | **(295)** | – |
| Total tax charge for the year | **4,576** | 5,339 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 10. INCOME TAX EXPENSE *(Continued)*

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

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **RMB'000** | **%** | RMB'000<br>Restated | % |
| Profit before tax from continuing operations | **28,252** | | 33,872 | |
| Tax at the statutory tax rates | **7,063** | **25.0** | 8,468 | 25.0 |
| Preferential tax rate or concessions | **(3,247)** | **(11.5)** | (3,389) | (10.0) |
| Adjustments in respect of current tax of previous periods | **1** | **–** | 180 | 0.5 |
| Losses attributable to a jointly-controlled entity and associates | **129** | **0.5** | 101 | 0.3 |
| Tax incentives on eligible expenditures | **(2,044)** | **(7.2)** | (1,646) | (4.8) |
| Income not subject to tax | **(18)** | **(0.1)** | (168) | (0.5) |
| Expenses not deductible for tax | **669** | **2.3** | 908 | 2.7 |
| Tax losses not recognised | **2,023** | **7.2** | 885 | 2.6 |
| Tax charge at the Group's effective rate | **4,576** | **16.2** | 5,339 | 15.8 |

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB26,686,000 (2010: RMB25,398,000) which has been dealt with in the financial statements of the Company *(note 33(b))*.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 12. DISCONTINUED OPERATION

On 12 November 2011, the Company and Renhe (Group) Development Co., Ltd. ("Renhe Group") entered into an equity transfer agreement pursuant to which the Company agreed to sell, and Renhe Group agreed to purchase from the Company, 80% equity interest in Baiao Pharmaceuticals at a consideration of RMB78,470,560. Baiao Pharmaceuticals is principally engaged in manufacturing, selling and distribution of pharmaceutical products. The disposal has been approved by the extraordinary general meeting of the Company's shareholders held on 15 February 2012. Upon completion of the disposal, the Company will not hold any interest in Baiao Pharmaceuticals, and Baiao Pharmaceuticals will cease to be a subsidiary of the Company. As at 31 December 2011, Baiao Pharmaceuticals was classified as a disposal group held for sale in the consolidated statement of financial position of the Group and the investment in Baiao Pharmaceuticals was classified as an asset held for sale in the statement of financial position of the Company.

The results of Baiao Pharmaceuticals for the year are presented below:

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Revenue, other income and gains | **48,918** | 63,647 |
| Expenses | **(52,530)** | (62,121) |
| Finance costs | **(1,136)** | (692) |
| (Loss)/profit before tax from the discontinued operation | **(4,748)** | 834 |
| Income taxes expense | **–** | – |
| Profit for the year from the discontinued operation | **(4,748)** | 834 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 12. DISCONTINUED OPERATION *(Continued)*

The major classes of assets and liabilities of Baiao Pharmaceuticals classified as held for sale as at 31 December are as follows:

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| *Assets* | | |
| Property, plant and equipment *(note i)* | **40,965** | – |
| Prepaid land lease payments *(note ii)* | **3,216** | – |
| Other intangible assets | **48** | – |
| Inventories | **8,442** | – |
| Trade and bills receivables | **12,197** | – |
| Cash and short term deposits | **43,948** | – |
| Prepayments, deposits and other receivables | **1,733** | – |
| Assets classified as held for sale | **110,549** | – |
| *Liabilities* | | |
| Trade payables | **(1,084)** | – |
| Other payables and accruals | **(5,727)** | – |
| Tax payable | **(366)** | – |
| Corporate bonds | **(19,901)** | – |
| Deferred income | **(2,646)** | – |
| Liabilities directly associated with the assets classified as held for sale | **(29,724)** | – |
| Net assets directly associated with the disposal group | **80,825** | – |

(i) As at 31 December 2011, certain buildings of Baiao Pharmaceuticals with a net book value of approximately RMB24,118,000 (2010: RMB24,558,000) were pledged to a third party (the "Guarantor") to obtain a guarantee in respect of the corporate bonds.

(ii) As at 31 December 2011, certain land use rights of Baiao Pharmaceuticals with a net book value of RMB3,216,000 (2010: RMB3,288,000) were pledged to the Guarantor to obtain a guarantee in respect of the corporate bonds.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 12. DISCONTINUED OPERATION *(Continued)*

The net cash flows incurred by Baiao Pharmaceuticals are as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Operating activities | **2,296** | 10,127 |
| Investing activities | **(10,652)** | (21,235) |
| Financing activities | **(1,036)** | 17,335 |
| Net cash inflow/(outflow) | **(9,392)** | 6,227 |
| Earnings/(loss) per share: | | |
| Basic and diluted, from the discontinued operation | **RMB(0.03)** | RMB0.01 |

The calculation of basic earnings/(loss) per share from the discontinued operation is based on:

| | 2011 | 2010 |
|---|---|---|
| (Loss)/profit attributable to ordinary equity holders of the parent from the discontinued operation | **RMB(3,798,000)** | RMB667,000 |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 14)* | **131,303,670** | 102,624,707 |

## 13. DIVIDEND

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Proposed final dividend – RMB0.1 (2010: RMB0.1) per share | **13,130** | 13,130 |

The proposed final dividend for the year (not recognised as liability as at 31 December 2011) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB17,956,000 (2010: RMB27,647,000) and the weighted average number of ordinary shares of 131,303,670 (2010: 102,624,707) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during both years.

## 15. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Building and other structures RMB'000 | Leasehold improvements RMB'000 | Machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | CIP RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | |
| At 31 December 2010 and at 1 January 2011: | | | | | | | |
| 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 |
| At 1 January 2011, net of accumulated depreciation | 53,636 | 6,596 | 34,460 | 2,839 | 3,006 | 2,186 | 102,723 |
| Additions | 12 | 608 | 17,490 | 752 | 793 | 19,125 | 38,780 |
| Disposals | (14) | – | (36) | (11) | (29) | – | (90) |
| Assets included in a discontinued operation *(note 12)* | (29,043) | – | (11,089) | (265) | (568) | – | (40,965) |
| Depreciation provided during the year | (2,821) | (1,484) | (7,526) | (1,295) | (1,180) | – | (14,306) |
| Transfers | – | 336 | – | – | – | (336) | – |
| At 31 December 2011, net of accumulated depreciation | 21,770 | 6,056 | 33,299 | 2,020 | 2,022 | 20,975 | 86,142 |
| At 31 December 2011: | | | | | | | |
| Cost | 27,014 | 11,807 | 61,723 | 8,219 | 6,436 | 20,975 | 136,174 |
| Accumulated depreciation | (5,244) | (5,751) | (28,424) | (6,199) | (4,414) | – | (50,032) |
| Net carrying amount | 21,770 | 6,056 | 33,299 | 2,020 | 2,022 | 20,975 | 86,142 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Group *(Continued)*

| | Building and other structures RMB'000 | Leasehold improvements RMB'000 | Machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | CIP RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2010** | | | | | | | |
| 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 |
| Disposals | (92) | – | (220) | (23) | (13) | – | (348) |
| Acquisition of a subsidiary | – | – | – | 69 | 363 | – | 432 |
| Depreciation provided during the year | (2,833) | (1,610) | (6,924) | (1,430) | (999) | – | (13,796) |
| 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 2011*

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Company

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | CIP RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | |
| At 1 January 2011, net of accumulated depreciation | **18,219** | **4,560** | **17,645** | **941** | **1,245** | **2,186** | **44,796** |
| Additions | **–** | **98** | **16,944** | **101** | **415** | **19,125** | **36,683** |
| Disposals | **–** | **–** | **(1)** | **(6)** | **(15)** | **–** | **(22)** |
| Depreciation provided during the year | **(681)** | **(963)** | **(4,747)** | **(351)** | **(621)** | **–** | **(7,363)** |
| Transfers | **–** | **336** | **–** | **–** | **–** | **(336)** | **–** |
| At 31 December 2011, net of accumulated depreciation | **17,538** | **4,031** | **29,841** | **685** | **1,024** | **20,975** | **74,094** |
| At 31 December 2011: | | | | | | | |
| Cost | **21,806** | **7,010** | **55,692** | **3,717** | **4,516** | **20,975** | **113,716** |
| Accumulated depreciation | **(4,268)** | **(2,979)** | **(25,851)** | **(3,032)** | **(3,492)** | **–** | **(39,622)** |
| Net carrying amount | **17,538** | **4,031** | **29,841** | **685** | **1,024** | **20,975** | **74,094** |
| **31 December 2010** | | | | | | | |
| At 1 January 2010: | | | | | | | |
| 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 |
| 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 |
| Disposals | – | – | (20) | (5) | (6) | – | (31) |
| Depreciation provided during the year | (680) | (910) | (3,808) | (461) | (523) | – | (6,382) |
| 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 2011*

## 16. PREPAID LAND LEASE PAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Carrying amount at 1 January | **7,128** | 7,301 | **3,300** | 3,380 |
| Recognition during the year | **(173)** | (173) | **(81)** | (81) |
| Assets included in a discontinued Operation *(note 12)* | **(3,216)** | – | **–** | – |
| Carrying amount at 31 December | **3,739** | 7,128 | **3,219** | 3,299 |
| Current portion | **(105)** | (177) | **(75)** | (75) |
| Non-current portion | **3,634** | 6,951 | **3,144** | 3,224 |

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

## 17. GOODWILL

| | **Group** |
|---|---|
| | RMB'000 |
| At 1 January 2010 and 31 December 2010: | |
| Cost | 470 |
| Accumulated impairment | (161) |
| Net carrying amount | 309 |
| At 1 January 2011 and 31 December 2011: | |
| Cost | 470 |
| Accumulated impairment | (161) |
| Net carrying amount | 309 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 17. 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.;

– 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 10% (2010: 10%).

Key assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2011 and 31 December 2010. 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 the key assumptions on market development of industrial products and infrastructure industries, discount rates and raw materials price inflation are consistent with external information sources.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 18. OTHER INTANGIBLE ASSETS

### Group

| | Know-how RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---|---|---|---|
| **31 December 2011** | | | |
| At 31 December 2010 and 1 January 2011: | | | |
| Cost | 10,911 | 912 | 11,823 |
| Accumulated amortisation | (4,366) | (912) | (5,278) |
| Net carrying amount | 6,545 | – | 6,545 |
| Net carrying amount: | | | |
| At 1 January 2011 | 6,545 | – | 6,545 |
| Additions | 6,006 | – | 6,006 |
| Assets included in a discontinued operation *(note 12)* | (48) | – | (48) |
| Amortisation provided during the year | (1,209) | – | (1,209) |
| At 31 December 2011 | 11,294 | – | 11,294 |
| At 31 December 2011: | | | |
| Cost | 13,840 | 912 | 14,752 |
| Accumulated amortisation | (2,546) | (912) | (3,458) |
| Net carrying amount | 11,294 | – | 11,294 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 18. OTHER INTANGIBLE ASSETS *(Continued)*

### Group *(Continued)*

| | Know-how RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---|---|---|---|
| 31 December 2010 | | | |
| At 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

*31 December 2011*

## 19. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Unlisted equity investments in the PRC, at cost | **83,283** | 70,783 |
| Classified as asset held for sale *(note 12)* | **(43,683)** | – |
| | **39,600** | 70,783 |

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB6,131,000 (2010: RMB300,000) and RMB287,000 (2010: RMB613,000), 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 registration and operations | Nominal value of paid-up capital/ registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Baiao Pharmaceuticals (北京百奧藥業有限責任公司)* | PRC/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) | PRC/Mainland China | RMB2.3 million | 51% | – | Manufacture, sale and distribution of in-vitro diagnostic reagent products |
| BioTrand Bio-Technology Co., Ltd. ("BioTrand") (北京百川飛虹生物科技有限公司) | PRC/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) | PRC/Mainland China | RMB5.3 million | 56.25% | – | Research, development, manufacture and distribution of biological reagents |
| 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)** | PRC/Mainland China | RMB13.1 million/ RMB14 million | 50% | – | Development, manufacture and distribution of enzyme and biological products |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Company name | Place of registration and operations | Nominal value of paid-up capital/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 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)** | PRC/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) | PRC/Mainland China | RMB15 million | 86.67% | – | Production of medical instruments |
| Beijing Huamei Scientific Co., Ltd. ("Huamei") (中生華美(北京)科技有限公司) | PRC/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) | PRC/Mainland China | RMB3 million | 100% | – | Distribution of immunodiagnostic products |
| BJ Biosino-DWD Biotechnology Co., Ltd. (北京中生達麥迪分子診斷技術有限公司) | PRC/Mainland China | RMB13.5 million | 55.56% | – | Manufacture, sale and distribution of in-vitro diagnostic reagent products |

Except for Baiao Pharmaceuticals, the statutory accounts of the subsidiaries were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

* The investment in Baiao Pharmaceuticals was classified as an asset held for sale in the statement of financial position of the Company. Details are included in note 12 to the financial statements.

** These entities are accounted for as subsidiaries by virtue of the Company's control over them.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 20. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted equity investment, at cost | **–** | – | **30,000** | – |
| Share of net assets | **25,570** | – | **–** | – |
| Goodwill on acquisition | **4,282** | – | **–** | – |
| | **29,852** | – | **30,000** | – |

Particulars of the jointly-controlled entity, which is held by the Company, are as follows:

| Name | Particulars of issued shares held | Place of registration | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activity |
|---|---|---|---|---|---|---|
| Suzhou Otian Medical Co., Ltd. (蘇州奧潤醫療科技有限公司) | Registered capital of RMB1 each | PRC/Mainland China | 35% | 35% | 35% | Production of scientific instruments |

The jointly-controlled entity was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The financial year end of the jointly controlled entity is coterminous with that of the Group.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 20. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY *(Continued)*

The following table illustrates the summarised financial information of the jointly-controlled entity:

| | **2011 RMB'000** |
|---|---|
| Share of the jointly-controlled entity's assets and liabilities: | |
| Current assets | **7,598** |
| Non-current assets | **17,987** |
| Current liabilities | **(15)** |
| Net assets | **25,570** |
| Share of the jointly-controlled entity's results: | |
| Revenue | **–** |
| Other income | **222** |
| Total expenses | **(370)** |
| Tax | **–** |
| Profit after tax | **(148)** |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 21. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted equity investment, at cost | **–** | – | **5,100** | 5,100 |
| Share of net assets | **2,361** | 2,787 | **–** | – |
| | **2,361** | 2,787 | **5,100** | 5,100 |
| Provision for impairment | **–** | (56) | **(2,739)** | (1,100) |
| | **2,361** | 2,731 | **2,361** | 4,000 |

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

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

None of the above associates was audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The financial year end of the above associates are coterminous with that of the Group.

The Group has discontinued the recognition of its share of losses of Ke Wei and Baike because of the share of losses of the associates exceeded the Group's investments in the associates. The amounts of the Group's unrecognized share of losses of these associates for the current year and cumulatively amounted to RMB881,000 (2010: RMB538,000) and RMB1,537,000 (2010: RMB656,000), respectively.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 21. INVESTMENTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or financial statements:

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Assets | **14,163** | 11,981 |
| Liabilities | **14,025** | 8,172 |
| Revenues | **1,880** | 1,089 |
| Losses | **(4,820)** | (3,729) |

## 22. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

### Group and company

**2011**

| | **Pension for impairment of assets RMB'000** | **Total RMB'000** |
|---|---|---|
| At 31 December 2010 and 1 January 2011 | – | – |
| Deferred tax credited to the income statement during the year | 295 | 295 |
| Gross deferred tax assets at 31 December 2011 | 295 | 295 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 23. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Raw materials | **11,233** | 12,015 | **7,395** | 6,878 |
| Work in progress | **811** | 1,889 | **358** | 496 |
| Semi-finished goods | **4,564** | 4,424 | **752** | 857 |
| Finished goods | **15,707** | 13,346 | **7,580** | 5,736 |
| | **32,315** | 31,674 | **16,085** | 13,967 |

## 24. TRADE AND BILLS RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables | **35,348** | 40,987 | **29,396** | 23,690 |
| Bills receivable | **–** | 2,327 | **–** | - |
| | **35,348** | 43,314 | **29,396** | 23,690 |
| Impairment *(note (a))* | **(1,005)** | (2,645) | **(1,005)** | (1,005) |
| | **34,343** | 40,669 | **28,391** | 22,685 |

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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are interest-free.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 24. TRADE AND BILLS RECEIVABLES *(Continued)*

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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 3 months | **31,600** | 35,432 | **26,650** | 20,171 |
| 4 to 6 months | **1,543** | 3,292 | **1,039** | 1,118 |
| 7 to 12 months | **435** | 1,933 | **118** | 1,396 |
| 1 to 2 years | **765** | 12 | **584** | – |
| | **34,343** | 40,669 | **28,391** | 22,685 |

*Notes:*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **2,645** | 3,062 | **1,005** | 1,005 |
| Impairment losses reversed | **–** | (417) | **–** | – |
| Provision included in a discontinued operation *(note 12)* | **(1,640)** | – | **–** | – |
| At 31 December | **1,005** | 2,645 | **1,005** | 1,005 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB671,000 (2010: RMB936,000) with a carrying amount before provision of RMB671,000 (2010: RMB936,000).

The individually impaired trade receivable as at 31 December 2011 relates to a customer that was in financial difficulties. The Group does not hold any collateral or other credit enhancements over such balance.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 24. TRADE AND BILLS RECEIVABLES *(Continued)*

(b) The aged analysis of the trade and bills receivables of the Group and the Company that are not individually nor collectively considered to be impaired is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **29,158** | 34,271 | **23,204** | 18,065 |
| Less than 1 month past due | **2,682** | 2,634 | **2,690** | 973 |
| 1 to 3 months past due | **2,503** | 3,764 | **2,497** | 3,647 |
| | **34,343** | 40,669 | **28,391** | 22,685 |

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.

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Advance to suppliers | **5,912** | 5,923 | **4,140** | 4,263 |
| Deposits and other receivables | **4,481** | 4,589 | **1,296** | 889 |
| Due from related companies | **–** | 293 | **–** | – |
| Due from a shareholder *(note (a))* | **1,483** | – | **–** | – |
| | **11,876** | 10,805 | **5,436** | 5,152 |

(a) Included in the amounts due from a shareholder as at 31 December 2011 are other receivable of RMB1,346,000 (2010: Nil) from the Institute of Biophysics of the Chinese Academy of Sciences ("IBP"), the substantial shareholder of the Company, and advance to IBP of RMB137,000 (2010: Nil) for purchasing goods.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 26. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | **92,146** | 161,710 | **70,248** | 116,233 |
| Time deposits | **41,343** | 41,300 | **20,000** | 10,000 |
| | **133,489** | 203,010 | **90,248** | 126,233 |
| Less: Time deposits with maturity over three months | **(41,343)** | (41,300) | **(20,000)** | (10,000) |
| Cash and cash equivalents | **92,146** | 161,710 | **70,248** | 116,233 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB84,759,000 (2010: RMB98,560,000). 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.

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 earn 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.

## 27. TRADE PAYABLES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 3 months | **7,250** | 9,884 | **4,353** | 4,101 |
| 4 to 6 months | **242** | 273 | **–** | – |
| 7 to 12 months | **534** | 202 | **–** | – |
| 1 to 2 years | **1,330** | 17 | **–** | 4 |
| Over 2 years | **37** | 216 | **28** | 103 |
| | **9,393** | 10,592 | **4,381** | 4,208 |

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

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 28. OTHER PAYABLES AND ACCRUALS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2011** **RMB'000** | 2010 RMB'000 | **2011** **RMB'000** | 2010 RMB'000 |
| Advances from customers | | **3,977** | 2,438 | **655** | 637 |
| Salaries and welfare payable | | **13,634** | 13,052 | **12,041** | 10,889 |
| Accrued expenses | | **4,380** | 5,076 | **4,213** | 5,076 |
| Other liabilities | *(a)* | **12,821** | 8,772 | **4,228** | 2,240 |
| Other taxes payable | | **1,644** | 3,208 | **2,116** | 2,327 |
| Due to a shareholder | *(b)* | **7,454** | 4,212 | **1,101** | 500 |
| Due to related companies | *(c)* | **372** | 1,100 | **172** | 183 |
| | | **44,282** | 37,858 | **24,526** | 21,852 |

*Notes:*

(a) Included in the other liabilities as at 31 December 2011 was a deposit of RMB3,000,000 from Renhe Group for the acquisition of the 80% equity interest in Baiao Pharmaceuticals from the Company.

(b) Included in the amounts due to a shareholder as at 31 December 2011 are the accrued technical service fees of RMB1,000,000 (2010: RMB500,000) payable to IBP, for the rights to use the technical know-how of the IBP, office rental of RMB520,000 (2010: RMB514,000), an advance from IBP of RMB5,832,000 (2010: RMB3,198,000) for purchasing goods from the Group and a payable of RMB102,000 (2010: Nil) to IBP for the expense paid on behalf of the Group. Further details of the technical service fee arrangements are set out in note 37 to the financial statements.

(c) Included in the amounts due to related companies as at 31 December 2011 are the amounts of RMB372,000 (2010: RMB183,000) payable to BioLab. The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 29. INTEREST-BEARING BANK BORROWING

### Group and Company

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loan – unsecured | **7.216** | **2012** | **30,000** | – | – | – |

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Analysed into: | | | | |
| Bank loan: | | | | |
| Within one year | **30,000** | – | **30,000** | – |

The Group's and the Company's bank borrowing is unsecured, bears interest at 10% above the benchmark interest rate of the People's bank of China and is repayable on 10 May 2012. The borrowing is denominated in RMB.

## 30. DEFERRED INCOME

Various government grants have been received by the Group and the Company for setting up research and development activities and acquisition of required assets. 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 or acquisition of the required assets.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 31. 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.

Pursuant to equity transfer agreement entered into on 12 November 2011 by the Company and Renhe Group, the Company will dispose of its equity interest in Baiao Pharmaceuticals held by the Company to Renhe Group. Further details of the disposal are included in note 12 to the financial statements. As at 31 December 2011, Baiao Pharmaceuticals was classified as a disposal group held for sale.

The movement of the corporate bonds issued during the year are as follows:

**Group**

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Nominal value of corporate bonds issued during the year | **20,000** | 20,000 |
| Interest adjustment | **(199)** | (300) |
| Liability at 1 January/the issuance date | **19,801** | 19,700 |
| Interest expense | **1,136** | 101 |
| Interest paid | **(1,036)** | – |
| Liabilities directly associated with the assets classified as held for sale *(note 12)* | **(19,901)** | – |
| At 31 December | **–** | 19,801 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 32. ISSUED CAPITAL

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Registered, issued and fully paid: | | |
| 67,017,528 (2010: 67,017,528) domestic shares of RMB1 each | **67,018** | 67,018 |
| 64,286,143 (2010: 64,286,143) H shares of RMB1 each | **64,286** | 64,286 |
| | **131,304** | 131,304 |

## 33. 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 47 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.

***Surplus reserve***

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.

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

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 33. RESERVES *(Continued)*

### (a) Group *(Continued)*

***Distributable reserves***

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB65,189,000 (2010: RMB54,414,000), out of which a dividend of RMB13,130,000 (2010: RMB13,130,000) for the year ended 31 December 2011 was proposed on 20 March 2012. In addition, the Company's share premium account in its statutory financial statements, in the amount of RMB49,524,000 (2010: RMB49,524,000), 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.

### (b) Company

| | **Capital reserves** RMB'000 | **Statutory reserve** RMB'000 | **Retained profits** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 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 and 1 January 2011 | 49,593 | 26,499 | 41,284 | 117,376 |
| Total comprehensive income for the year | – | – | 26,686 | 26,686 |
| Transfer to statutory reserves | – | 2,781* | (2,781)* | – |
| Proposed final 2011 dividend | – | – | (13,130) | (13,130) |
| At 31 December 2011 | 49,593 | 29,280 | 52,059 | 130,932 |

* The amount transferred from retained profits to the statutory reserves during the year ended 31 December 2011 represented the statutory surplus reserve amounting to RMB2,781,000 (2010: RMB3,096,000).

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 34. CONTINGENT LIABILITIES

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

## 35. PLEDGE OF ASSETS

Details of the disposal group's assets pledged for a guarantee from the Guarantor in respect of the issue of corporate bonds are included in note 12 to the financial statements.

## 36. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its properties under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **Group** | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Within one year | **226** | 219 |
| In the second to fifth years, inclusive | **283** | 492 |
| | **509** | 711 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 36. OPERATING LEASE ARRANGEMENTS *(Continued)*

### (b) As lessee

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 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Within one year | **1,453** | 1,374 | **100** | 100 |
| In the second to fifth years, inclusive | **1,423** | 1,805 | **202** | 302 |
| | **2,876** | 3,179 | **302** | 402 |

## 37. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 36(b) above, the Group and the Company had the following capital commitments at the end of the reporting period:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Contracted, but not provided for: | | | | |
| Land and buildings | **10,334** | 17,685 | **10,334** | 17,685 |

(b) On 9 December 2004, 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 IBP (the "Reagent Technologies"). Pursuant to the Licensing Agreement, the Company is required to pay a fee of RMB500,000 per annum to IBP for 20 years, commencing on the effective date of the Licensing Agreement. As at 31 December 2011, the technical service fees payable by the Group of RMB1,000,000 (31 December 2010: RMB500,000) were included in the amount due to a shareholder *(note 28(b))*.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 37. COMMITMENTS *(Continued)*

(c) Pursuant to the equity transfer agreement entered into on 2 November 2011 and the resolution made by the extraordinary general meeting of the Company's shareholders held on 15 February 2012, the Company will sell its entire equity interest in Baiao Pharmaceuticals to Renhe Group for the consideration of RMB78,470,560 *(note 12)*.

(d) On 6 December 2011, the board of directors approved an investment agreement, pursuant to which the Company, Cangzhou Enji Bioproduct Co., Ltd. ("Cangzhou Enji") and Guoen (Tianjin) Technology Development Company Limited ("Tianjin Enji") agreed to jointly establish a joint venture, namely Zhongsheng Enji (Tianjin) Medical Food Co., Ltd. ("Zhongsheng Enji"), in Tianjin, the PRC. Zhongsheng Enji will be principally engaged in research and development, production and sale of medical, healthcare, organic and clinical food products. Pursuant to the investment agreement, the registered capital of Zhongsheng Enji will be RMB50,000,000, in which RMB24,000,000, RMB20,000,000 and RMB6,000,000 will be contributed by the Company, Cangzhou Enji and Tianjin Enji, respectively, representing 48%, 40% and 12% of the equity interests in Zhongshen Enji, respectively.

## 38. 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* | **2011** | 2010 |
| | | **RMB'000** | RMB'000 |
| Operating lease rental | *(i)* | **725** | 659 |
| Technical service fee *(note 37(b))* | | **500** | 1,500 |
| Product processing service fee from IBP | *(ii)* | **(88)** | (209) |
| Products sold to IBP | *(iii)* | **(3,996)** | (587) |

*Notes:*

(i) The office premises of BioTrand, a subsidiary of the Company, were leased from 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.

(ii) BioTrand provided product processing services to IBP during the years ended 31 December 2011 and 2010. In the opinion of the directors, the service fee was determined by reference to the then prevailing market prices.

(iii) Huamei sold biological products to IBP during the years ended 31 December 2011 and 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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 38. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Outstanding balances with a shareholder and related companies are set out in notes 25 and 28 to the financial statements.

(c) Compensation of key management personnel of the Group

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short term employee benefits | **7,132** | 8,305 |
| Post-employment benefits | **78** | 97 |
| Total compensation paid to key management personnel | **7,210** | 8,402 |

Further details of director's emoluments are included in note 8 to the financial statements.

## 39. 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**

| | **2011 Loans and receivables RMB'000** | 2010 Loans and receivables RMB'000 |
|---|---|---|
| Trade and bills receivables | **34,343** | 40,669 |
| Financial assets included in prepayments, deposits and other receivables | **5,964** | 4,882 |
| Cash and cash equivalents | **133,489** | 203,010 |
| | **173,796** | 248,561 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 39. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### Group *(Continued)*

**Financial liabilities**

| | **2011 Financial liabilities at amortised cost RMB'000** | 2010 Financial liabilities at amortised cost RMB'000 |
|---|---|---|
| Trade payables | **9,393** | 10,592 |
| Financial liabilities included in other payables and accruals | **32,829** | 29,014 |
| Interest-bearing bank borrowing | **30,000** | – |
| Corporate bonds | **–** | 19,801 |
| | **72,222** | 59,407 |

### Company

**Financial assets**

| | **2011 Loans and receivables RMB'000** | 2010 Loans and receivables RMB'000 |
|---|---|---|
| Due from subsidiaries | **6,131** | 300 |
| Trade and bills receivables | **28,391** | 22,685 |
| Financial assets included in prepayments, deposits and other receivables | **1,296** | 889 |
| Cash and cash equivalents | **90,208** | 126,233 |
| | **126,066** | 150,107 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 39. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### Company *(Continued)*

**Financial liabilities**

| | **2011 Financial liabilities at amortised cost RMB'000** | 2010 Financial liabilities at amortised cost RMB'000 |
|---|---|---|
| Due to subsidiaries | **287** | 613 |
| Trade payables | **4,381** | 4,208 |
| Interest-bearing bank borrowing | **30,000** | – |
| Financial liabilities included in other payables and accruals | **21,755** | 18,888 |
| | **56,423** | 23,709 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 40. FAIR VALUE AND FAIR VALUE HIERARCH

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

### Group

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Trade and bills receivables | **34,343** | 40,669 | **34,343** | 40,669 |
| Financial assets included in prepayments, deposits and other receivables | **5,964** | 4,882 | **5,964** | 4,882 |
| Cash and cash equivalents | **133,489** | 203,010 | **133,489** | 203,010 |
| | **173,796** | 248,561 | **173,796** | 248,561 |
| **Financial liabilities** | | | | |
| Trade payables | **9,393** | 10,592 | **9,393** | 10,592 |
| Financial liabilities included in other payables and accruals | **32,829** | 29,014 | **32,829** | 29,014 |
| Interest-bearing bank borrowing | **30,000** | – | **30,000** | – |
| Corporate bonds | **–** | 19,801 | **–** | 19,801 |
| | **72,222** | 59,407 | **72,222** | 59,407 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 40. FAIR VALUE AND FAIR VALUE HIERARCH *(Continued)*

### Company

**Financial assets**

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 | **2011** **RMB'000** | 2010 RMB'000 |
| **Financial assets** | | | | |
| Due from subsidiaries | **6,131** | 300 | **6,131** | 300 |
| Trade and bills receivables | **28,391** | 22,685 | **28,391** | 22,685 |
| Financial assets included in prepayments, deposits and other receivables | **1,296** | 889 | **1,269** | 889 |
| Cash and cash equivalents | **90,248** | 126,233 | **90,248** | 126,233 |
| | **126,066** | 150,107 | **126,066** | 150,107 |
| **Financial liabilities** | | | | |
| Due to subsidiaries | **287** | 613 | **287** | 613 |
| Trade payables | **4,381** | 4,208 | **4,381** | 4,208 |
| Interest-bearing bank borrowing | **30,000** | – | **30,000** | – |
| Financial liabilities included in other payables and accruals | **21,755** | 18,888 | **21,755** | 18,888 |
| | **56,423** | 23,709 | **56,423** | 23,709 |

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the interest-bearing bank borrowing has been calculated by discounting the expected future cash flows using rate currently available for an instrument on similar terms, credit risk and remaining maturity.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 40. FAIR VALUE AND FAIR VALUE HIERARCH *(Continued)*

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Group and Company did not have any financial instrument measured at fair value as at 31 December 2011(2010: Nil).

## 41. 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:

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowing with a floating interest rate. As at 31 December 2011, the Group has interest-bearing bank borrowing of RMB30,000,000 which will be mature in May 2012. The directors of the Company are of the opinion that a reasonably possible change in the interest rate of the bank borrowing will not have material effect on the Group's profit before tax and the Group's and the Company's equity.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 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 rate %** | **Increase/ (decrease) in profit before tax RMB'000** |
|---|---|---|
| **2011** | | |
| If the RMB weakens against HKD | **5%** | **949** |
| If the RMB strengthens against HKD | **(5%)** | **(949)** |

| | Increase/ (decrease) in HKD rate % | 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 2011*

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 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 the reporting period, 17% (2010: 15%) of the Group's trade receivables were due from the Group's 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.

### 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.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

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 2011**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Trade payables | – | 9,393 | – | 9,393 |
| Interest-bearing bank borrowing | – | 541 | 30,241 | 30,782 |
| Financial liabilities included in other payables and accruals | 1,994 | 29,835 | 1,000 | 32,829 |
| | 1,994 | 39,769 | 31,241 | 73,004 |

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 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

**Company 2011**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Due to subsidiaries | 287 | – | – | 287 |
| Trade payables | – | 4,381 | – | 4,381 |
| Interest-bearing bank borrowing | – | 541 | 30,241 | 30,782 |
| Financial liabilities included in other payables and accruals | 273 | 20,482 | 1,000 | 21,755 |
| | 560 | 25,404 | 31,241 | 57,205 |

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 |

### 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 ratio of capital and debt required to support its planned business growth.

# NOTES TO FINANCIAL STATEMENTS

*31 December 2011*

## 42. EVENTS AFTER THE REPORTING PERIOD

(a) Pursuant to the resolution of the extraordinary general meeting of the Company's shareholders held on 15 February 2012, the equity transfer agreement entered into between the Company and Renhe Group in relation to the disposal of 80% equity interest in Baiao Pharmaceuticals was approved. Further details of the disposal are included in note 12 to the financial statements.

(b) Pursuant to the resolution of the board of directors on 6 December 2011, an investment agreement was entered into among the Company, Cangzhou Enji and Tianjin Enji on 9 January 2012 to jointly establish a joint venture, namely Zhongsheng Enji, in Tianjin, the PRC. Further details of this investment are included in note 37(d) to the financial statements.

## 43. COMPARATIVE AMOUNTS

The comparative income statement has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period *(note 12)*.

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2012.

# 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 2011, is set out below. This summary does not form part of the audited financial statements.

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| REVENUE | **184,153** | 229,282 | 212,020 | 200,591 | 174,672 |
| PROFIT BEFORE TAX | **28,252** | 34,706 | 34,493 | 31,079 | 29,124 |
| TAX | **(4,576)** | (5,339) | (5,401) | (5,156) | (7,126) |
| PROFIT FOR THE YEAR | **18,928** | 29,367 | 29,092 | 25,923 | 21,998 |
| ATTRIBUTABLE TO: | | | | | |
| Owners of the parent | **17,956** | 27,647 | 26,519 | 23,955 | 19,929 |
| Non-controlling interests | **972** | 1,720 | 2,573 | 1,968 | 2,069 |
| | **18,928** | 29,367 | 29,092 | 25,923 | 21,998 |

# FIVE YEAR FINANCIAL SUMMARY

## ASSETS, LIABILITIES AND EQUITY

| | 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| TOTAL ASSETS | **456,564** | 405,594 | 295,739 | 304,120 | 348,672 |
| TOTAL LIABILITIES | **(124,858)** | (81,086) | (57,215) | (86,786) | (145,680) |
| NET ASSETS | **331,706** | 324,508 | 238,524 | 217,334 | 202,992 |
| REPRESENTED BY: | | | | | |
| EQUITY ATTRIBUTABLE TO: | | | | | |
| OWNERS OF THE PARENT | **292,401** | 288,021 | 211,497 | 194,980 | 181,027 |
| NON-CONTROLLING INTERESTS | **39,305** | 36,487 | 27,027 | 22,354 | 21,965 |
| TOTAL EQUITY | **331,706** | 324,508 | 238,524 | 217,334 | 202,992 |