

Genex Pharmaceutical, Inc.
Form 10KSB
May 23, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

Form 10-KSB

R Annual Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934
For the fiscal year ended December 31, 2007

£ Transition Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 333-102118

GENEX PHARMACEUTICAL, INC.

(Exact name of small business issuer as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

98-0383571
(I.R.S. Employer I.D. No.)

**1801 Guangyin Building, Youyibeilu, Hexi District,
Tianjin City, China**

(Address of Principal Executive Offices)

300074
(Zip Code)

Issuer's telephone number **+86 22 23370440**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class
None

Name of each exchange on which registered
None

Securities registered under Section 12(g) of the Exchange Act:

\$0.0001 Par Value Common Stock

Title of Class

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. £

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Check whether the issuer has (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The issuer's revenues for the fiscal year ended December 31, 2007 were \$3,237,155.

As of March 31, 2008, the registrant had 3,212,232 shares of common stock outstanding held by non-affiliates, and the aggregate market value of the common stock held by non-affiliates was approximately \$770,936. This calculation is based upon the closing sale price of \$0.24 per share on March 25, 2008.

As of March 31, 2008, there were 17,845,732 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format: Yes No

Genex Pharmaceutical, Inc.

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PART I

Certain statements in this Form 10-KSB constitute "forward-looking statements." These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The forward-looking statements in this Form 10-KSB are identified by words such as "believes," "anticipates," "expects," "intends," "may," "will," "estimate," "continue" and other similar expressions regarding our intent, belief and current expectations. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances and statements made in the future tense are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements as a result of various factors, many of which are beyond our control. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances occurring subsequent to the filing of this Form 10-KSB with the Securities and Exchange Commission (the "SEC"). Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-KSB, including those set forth under "Risk Factors."

Item 1. Business

Overview

Genex Pharmaceutical, Inc., formerly known as KS E-Media Holdings, Inc. ("Genex"), was incorporated in the State of Delaware on February 28, 2002. Prior to June 17, 2004, Genex was considered a development stage company. Genex was a start-up Internet based fulfillment company with offices in Vancouver, BC, Canada.

On June 8, 2004, Genex entered into a Share Purchase Agreement with Tianjin Zhongjin Biology Development Co., Ltd. ("Zhongjin"), a company formed under the laws of the People's Republic of China (the "PRC" or "China"), and the shareholders of Zhongjin (the "Share Purchase Agreement"). The agreement provided for the acquisition by Genex of Zhongjin's shares in exchange for 3,658,375 restricted shares of Genex's common stock which were issued to the Zhongjin stockholders. On June 17, 2004, the stock purchase made pursuant to the Share Purchase Agreement was consummated. On June 27, 2004, the Company effectuated a four-for-one stock dividend of its common stock, and on June 29, 2004, changed its name to the present name. Genex and Zhongjin are collectively referred to herein as the "Company" unless the context otherwise requires.

Although the Share Purchase Agreement was consummated, under current PRC laws and regulations, foreign ownership of Zhongjin is prohibited unless the Company obtains government approvals from the Tianjin offices of the State Administration of Foreign Exchange ("SAFE"), the Ministry of Commerce, and the State Administration for Industry and Commerce. Failure to obtain government approval may result in the Company's inability to enjoy the benefits of legal ownership, including repatriation of capital and distribution of profits.

The Company has yet to submit applications to receive government approval of the transfer of Zhongjin's equity interest; however, to protect its interest in Zhongjin, the Company entered into a trusteeship agreement and a contract for management services ("Management Agreement") on May 19, 2006. Both the trusteeship agreement and the Management Agreement bore on effective date of June 17, 2004. Under the trusteeship agreement, entered into by the Company and Mr. Fuzhi Song and Mr. Deshun Song, the legal stockholders of Zhongjin, the equity shares in Zhongjin are to be held for the Company and the Company is given the exclusive power and authority to exercise any and all stockholder rights with respect to all the equity shares in Zhongjin as if the Company was the legal, registered owner of such shares. The Management Agreement entered into by the Company and Zhongjin requires the Company to provide management, administrative and related services to Zhongjin in exchange for a base annual fee of Renminbi ("RMB") 1,000 and a floating fee equal to Zhongjin's gross revenues less its gross expenses for each payment period. To date Zhongjin has not actually made any of such payments to Genex. Further, payment of such amounts to Genex would likely require approval of the PRC government, and it is unclear whether, and when, such

approval will or could be obtained.

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Zhongjin's Chairman of the Board of Directors, Mr. Fuzhi Song, has been appointed the Company's President, Chief Executive Officer and Chairman of the Board of Directors. Mr. Shuli Zhang has been appointed Chief Financial Officer and Treasurer of the Company, and Ms. Sufen Ai has been appointed the Secretary.

Unless otherwise specified or the context otherwise requires, in this Form 10-KSB the term "Genex" shall mean the operations or business of Genex Pharmaceutical, Inc., a Delaware corporation, prior to the consummation of the Share Purchase Agreement. Unless otherwise specified or the context otherwise requires, in this Form 10-KSB the terms "Zhongjin," "we" and "our" shall refer to the operations of the Company on or after June 17, 2004.

About Zhongjin

Zhongjin is incorporated under the laws of the PRC and is headquartered in Tianjin, China. Zhongjin engages in the business of producing and distributing Reconstituted Bone Xenograft ("RBX"), which is considered a medical device that accelerates bone healing. Zhongjin solely markets its medical devices to hospitals in China and aims to position itself as a comprehensive provider of bone grafting products and services. Presently, Zhongjin distributes its medical devices to more than 500 hospitals in 30 provinces throughout China. Zhongjin also markets its medical devices to medical device customers in China that are not hospitals.

Industry Overview

Historically, the primary technologies for bone grafting are autografting and allografting. The autograft procedure is one in which a complex or compound bone fracture is fused using bone tissue harvested from the patient's own body, usually the hip bone. The allograft procedure, although similar to the autograft procedure, uses bone tissue from a donor's cadaver bone. Compared to the traditional autograft and allograft procedures, the xenograft procedure derives its material from porcine or bovine bone to manufacture a natural ingredient.

Zhongjin Products

Zhongjin is dedicated to the manufacture of RBX. Management believes that Zhongjin's RBX requires fewer medical procedures and presents less immunological side effects compared to the autograft or allograft methods. Manufacturing of RBX is an approximate 100 day process that starts with selecting a bovine bone. Chemical agents are then used to decalcify and remove protein from the low-density bone, removing impurities that may infect or be rejected by the patient's body. This process makes the bone more tolerable to human tissues. The final step involves the infusion of Bone Morphogenetic Protein ("BMP") into the inorganic bone, which result is RBX. RBX can be used in a variety of bone-related injuries ranging from complex fractures to bone defects and bone traumas.

The Orthopedic Department at the Beijing General Military Hospital began testing RBX prior to 2004 and the clinical trials indicated that RBX achieved an approximately 88.5% success rate. In certain cases, RBX has been found to be more cost effective than traditional methods of bone grafting. RBX has excellent compatibility with natural human bone. The Tianjin Institute for Medical Science, a leading Chinese medical research institute, monitors the quality of RBX through sample testing the BMP bio-growth materials and the final RBX product.

Marketing

Zhongjin markets RBX to Chinese hospitals and medical device resellers, and presently manufactures and distributes RBX to more than 500 hospitals in 30 provinces. Zhongjin does not market or sell its products in the United States. Through intensive marketing campaigns and development of its distribution network, Zhongjin is experiencing growing demand for RBX. With increased national medical budgets, a national initiative to enhance medical procedures and an interest in enhancing "quality of life" technologies, it is the Company's belief that China's medical community is adapting RBX technology to counter bone-related injuries. Zhongjin believes that the medical industry requires a cheaper, minimally intrusive surgical procedure to meet the demands placed on hospitals by bone-related

injuries.

Zhongjin sells RBX directly through a distribution network consisting of ten provincial branches with 40 direct sales personnel. These branches are physical branch offices located in the various provinces. This network is further expanded by more than 57 independent, third-party medical device resellers covering an additional 17 provinces. The marketing of the products to the medical community is carried out through professional medical seminars, technical conferences, internal hospital meetings and clinical studies. Advertisements in professional magazines and the press, such as the Chinese Journal of Orthopedics and the Chinese Journal of Surgery, also promote and enhance product awareness.

The Bureau of Price Management of the PRC has implemented price controls associated with the sale of Zhongjin's products. Currently, it does not appear that the government price controls are likely to have any impact on the marketing of Zhongjin's products, but such price controls may impact future marketing and sales.

Sources and Availability of Raw Materials (Vendors)

The principle element of RBX is bovine bone for which there are numerous suppliers. The primary ingredient is readily available and inexpensive.

Customers

The largest ten customers in the year 2007 included both medical device resellers and hospitals, and accounted for approximately 32% of the Company's total revenues for 2007, of which the largest three customers accounted for 6%, 6% and 3%, respectively. The Company's medical device customers represent 31% of all sales, and direct sales to hospitals account for 69% of sales, in 2007. The Company has entered into sales agreement with major medical device resellers in 2007. Those agreements provide for, among others, the quantities and prices of the goods to be purchased by those resellers from the Company within a certain period of time. The Company recognizes the importance of the medical device resellers for increasing sales and continues to establish new links with medical device companies throughout China.

Intellectual Property

The RBX technology has been registered with the patent registration authority in the PRC. Although Zhongjin purchased all of the rights and the title relating to the patent of the RBX technology, the PRC does not permit the name in which the patent was registered to be changed. Therefore, there is a risk to Zhongjin that the registrant of the patent or a third party could challenge the ownership and use of the patent of the RBX technology. Key employees who are in critical positions of the RBX manufacturing process have signed confidentiality agreements with Zhongjin. As further means of security, files and records relating to the manufacturing process are maintained separately, and no non-executive level employee is acquainted with the entire process.

Research and Development

Historically, most of Zhongjin's research and development has been conducted by independent third parties. During 2007 year, research and development expenses at \$195,991 incurred, which were mainly associated with a research for a new bone grafting material, and the project was conducted by Golden World Drug Research Centre, a related parties. However, in 2006, we spent \$1,171 on research and development activities, all of which was conducted in-house.

Government and Environmental Regulations

Zhongjin maintains the following licenses and is in good standing with the regulatory agencies that enforce PRC government laws:

1.
Business License issued by The Tianjin Administration for Industry and Commerce;
2.
Manufacturing License for Medical Devices issued by The Tianjin Drug Administration; and
3.
Certificate for Medical Devices Product Standard, which is a certified product statement of manufacturing and production for medical devices.

The product that Zhongjin manufactures and the industry in which it operates is highly regulated by the State Food and Drug Administration of China and other local regulatory agencies and governmental approval is vital to its business.

Employees

As of December 31, 2007, Zhongjin had 86 full-time employees broken down as follows:

Department	No. of employees
Management	1
Production ⁽¹⁾	24
Sales	40
Finance and accounting	5
Administration	16
Total	86

(1)

Third-party medical institutions undertake research and development and such personnel are not included in the figure presented. However, the Company's in-house R&D professionals are currently included as production personnel.

In 2007, Zhongjin increased the number of sales staff than that maintained in 2006. Zhongjin's human resources allows Zhongjin to continue meeting product demand and expanding sales and distribution networks. The sales teams are located in the provinces of Guangdong, Tianjin, Beijing, Shandong, Hunan, Hubei, ChuanYu, Shanghai Heilongjiang, Fujian, Henan, Hebei, JiangSu, ZheJiang and XinJiang. Sales teams work out of physical branch offices in a number of these provinces. Zhongjin's management team is based in Tianjin City, China.

Competition

The RBX technology developed by Zhongjin competes against traditional methods of bone graft surgery such as autografting and allografting. Most bone grafting products derived from natural bone or synthetic bone marrow combinations for bone fusion procedures are available internationally and are predominantly developed and manufactured by international pharmaceutical companies. In China, the traditional bone grafting products dominate

the market. The present market for bone grafting technology is fragmented with only several small firms operating in regional markets and Zhongjin is not aware of any other company in China committed to the development of a manufacturing platform for the xenograft technology to serve the current national demand for bone grafting products.

Shanxi Osteorad is a competitor on a national level and it specializes in allograft-related products. Other companies that provide bone grafting medical devices include Shanghai Rebone Biomaterials Co., Ltd., U.S. Biomaterials Corporation and Mathys (Shanghai) Medical Trading Company Ltd., which all produce synthetic bone grafting products. The Shanghai Xiaobo Science and Technology Development Company produces p-DBM (de-mineralized bone matrix) on a small scale and does not directly compete with Zhongjin.

Item 1A. Risk Factors

Set forth below and elsewhere in this report and the other documents we file with the SEC are risks and uncertainties that could cause our actual results to materially differ from the results contemplated by the forward-looking statements contained in this report and in other documents we file with the SEC.

Tax Risks

Tax penalties and tax liabilities imposed by the PRC and the United States may adversely impact our financial position and results of operations.

Zhongjin is organized and registered in the PRC, operates solely out of the PRC, sells its products exclusively in the PRC and is subject to PRC's Enterprise Income Tax. Pursuant to the PRC Income Tax Laws, the Enterprise Income Tax is generally imposed at a statutory rate of 33%, which includes a 30% national income tax and 3% local income tax. Tax returns generally must be filed quarterly. (With the new PRC Enterprise Income Tax Law, effective on January 1, 2008, the Company will be generally subject to a PRC national income tax rate of 25%). For its first two years of operation from June 2003 to May 2005, Zhongjin was granted a tax "holiday" in the PRC and was exempted from PRC's Enterprise Income Tax. Zhongjin negotiated for an extension of the tax holiday following the expiration thereof, and during this period and continuing to date, Zhongjin has not filed a tax return in China. As a result, the taxing authority in the PRC imposed a penalty of \$ 35,009 based upon the fourth quarter of 2005, which Zhongjin paid. Since that time, Zhongjin still has not filed tax returns in the PRC or paid PRC income taxes at the full statutory rate, but instead has paid PRC income taxes in lesser amounts on the basis of its discussions with the PRC taxing authority. The actual amount of income taxes Zhongjin paid in the PRC was \$ 162,045 and \$ 85,952 for the years ended December 31, 2007 and 2006, respectively. Although Zhongjin believes that it has paid its income taxes in the PRC in accordance with the terms of its previous tax holiday and thereafter as determined by representatives of its PRC taxing authority, the PRC taxing authorities may assert that additional taxes are due for the current period, the most recently completed tax year or prior years, and may seek to impose interest and penalties. In its consolidated financial statements for the years ended December 31, 2007 and 2006, the Company recorded provisions for income taxes based upon the PRC statutory rates in light of the possibility that it would ultimately have to pay the full statutory rates in the PRC.

Genex as an entity has not paid any income taxes in the United States since its inception nor has it filed any income tax returns in the United States or any state of the United States. Genex has no permanent establishment or fixed or other place of business in the United States, no personnel or employees in the United States, and no operations, sales, technology or other assets in the United States. Nonetheless, Genex, as a US corporation, remains subject to US taxation on its worldwide income. Although all of Zhongjin's operations, sales and personnel are in China, its earnings are derived from China and it has not declared any dividends payable to Genex, Genex could potentially be subject to US income taxation on fees payable to it pursuant to the Management Agreement which Genex and Zhongjin entered into in May 2006 (bearing a June 2004 effective date). Nevertheless, Genex has not actually received any payments from Zhongjin under the Management Agreement at any time. Genex intends to file tax returns in the United States in the upcoming months and in doing so, for income tax purposes intends to follow the cash method of accounting for income taxes. Accordingly, Genex is of the view that to date it has had no taxable income in the United States for any amounts payable under the Management Agreement, since none of such amounts has actually been paid. Zhongjin, the counterparty under the Management Agreement, has not taken an income tax deduction in China for any amounts that may be payable under the Management Agreement. If and when any such amounts are actually paid to Genex, Genex likely will recognize taxable income in the United States although it will explore whether any other tax strategies are available to it.

The Internal Revenue Service may disagree with Genex's approach as outlined above and seek to tax amounts owed to Genex under the Management Agreement even though Zhongjin has not actually made any such payments under the Management Agreement, and even though services rendered under such agreement have been performed and received

exclusively in China. If the Internal Revenue Service disagrees with Genex's position as outlined above, Genex may have exposure for the payment of additional income taxes, which may have a material adverse effect on Genex's financial condition or results of operations, although Genex would continue to explore other strategies relating to its tax position. The United States may also seek to tax payments to service providers made by Zhongjin on behalf of Genex although Genex may have a corresponding or partial deduction for such expenses. Finally, Genex believes that it will be subject to penalties in the United States for its previous failure to file income tax returns in the U.S. Genex believes that contrary to its prior disclosures, it likely does not have and has not had any tax losses available for carry forward for any period following the June 2004 share purchase agreement with KS E-Media Holdings, Inc.

In the upcoming months we intend to file tax returns in the United States and China for current and prior years, and as part of this process may pay additional taxes and may sustain penalties that could adversely impact our financial position and results of operations. Until we finalize our tax analysis and strategies and prepare and file our US and China tax returns for current and prior years, we are unable to predict with certainty the extent to which we will be subject to additional taxes or penalties.

Risks Related to Our Business

We have loaned almost seventy-five percent of our assets to various related parties on an unsecured basis. Because these loans are made on an unsecured basis and comprise a substantial portion of our total assets, we would be adversely and seriously affected in the event of their non-payment.

We have made numerous short-term interest bearing loans and non-interest bearing loans on an unsecured basis to subsidiaries of Tianjin Jinshi Group, a related party. As of fiscal year end, the total amount owed to us from these loans, which were all renewed for an additional one year period, comprised a substantial portion of our total assets. Because we made these loans on an unsecured basis and did not receive any collateral, we would be adversely and seriously affected in the event of their non-payment. In addition, while we have been accruing interest income on these loans, the borrowers have not actually made interest payments to us on these loans. See "Item 12. Certain Relationships and Related Transactions, and Director Independence."

Our RBX technology has been registered with the patent registration authority in the PRC, and we have purchased all of the rights and the title relating to the patent. However, due to PRC laws prohibiting the name in which the patent was registered to be changed, there is a risk that the patent registrant or a third party could challenge our use of the patent, which could result in a loss of competitive advantage and reduced profitability.

The RBX technology has been registered with the patent registration authority in the PRC. Although we purchased all of the rights and the title relating to the RBX technology patent, the PRC does not permit the name in which the patent was registered to be changed. Thus, we also maintain the RBX technology as a trade secret and have implemented measures to limit the number of employees with knowledge of such technology. These measures include requiring each employee with knowledge of the technology to sign a confidentiality agreement, prohibiting any non-executive level employee from becoming acquainted with the entire RBX manufacturing process and maintaining our files and records relating to the manufacturing process separately. Notwithstanding our security measures, there is a risk that the patent registrant or a third party could challenge our use of the patent since it is not registered in our name. Such a challenge could result in a loss of competitive advantage and reduced profitability.

Our directors and officers may allocate their time and efforts to other businesses resulting in conflicts of interest

Certain conflicts of interest exist between us and our officers and directors. The officers and directors have other business interests to which they currently devote attention, and are expected to continue to do so. As a result, conflicts of interest may arise that can be resolved only through their exercise of judgment in a manner which is consistent with their fiduciary duties owed to the Company.

We have limited business insurance coverage, and any business disruption, litigation or natural disaster may result in the incurrence of substantial costs and the diversion of Company resources.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. We do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster may result in the incurrence of substantial costs and the diversion of Company resources.

Our success depends on the continuing efforts of our senior management team and other key personnel and our business may be harmed if we lose their services.

Our future success depends heavily upon the continuing services of the members of our senior management team, in particular our Chairman, President and Chief Executive Officer, Mr. Fuzhi Song, and our Chief Financial Officer, Mr.

Shuli Zhang. If one or more of our senior executive or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected.

Our by-laws provide for the indemnification of directors, officers, employees and agents, which could result in substantial expenditures that we may be unable to recoup.

Our by-laws provide for the indemnification of our directors, officers, employees and agents (each, an "Indemnified Party") under certain circumstances for attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of us. We will bear the expenses of such litigation only upon the Indemnified Party's promise to repay us if it is ultimately determined that such Indemnified Party was not entitled to indemnification. This indemnification policy could result in substantial expenditures by us, which we may be unable to recoup.

We do not have an independent audit committee or audit committee financial expert, and have not adopted a code of ethics that applies to our principal executive officer, financial officer and accounting officer. As such, our stockholders do not have the protection and benefit that such corporate governance measures are meant to provide.

Currently, we do not have an independent audit committee with a financial expert that can assist the Board of Directors in monitoring the integrity of our financial statements, the qualifications, independence and performance of our public accountants or the performance of our internal audit function. Further, although we are in the process of formulating a code of ethics to govern the professional and ethical conduct of our principal executive officer, financial officer and accounting officer, we have yet to adopt formally such a code. Because we have not implemented these corporate governance measures, our stockholders do not have the protection and benefit that such measures are meant to provide.

Our directors and officers collectively have the power to make all of our major decisions without stockholder vote or solicitation of consents from any other stockholder or other person. This discretion could lead to decisions that are not necessarily in the best interest of the minority stockholders.

Our management team, including our directors and officers, collectively own 73.8% of our outstanding common stock. Therefore, management has the power to make all decisions regarding our affairs, including decisions regarding whether or not to issue additional stock and for what consideration, whether or not to sell all or substantially all of the Company's assets or whether to enter into a merger or acquire another business. Also, management may otherwise amend our charter or bylaws without minority stockholder approval or consent. The management team is in a position to elect all directors and has the decision making ability with regard to all of our policies.

We have identified material weaknesses in our disclosure controls and procedures and our internal control over financial reporting which, , may adversely affect our ability to timely and accurately meet our financial reporting responsibilities.

We believe that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and internal controls over financial reporting were not effective as of December 31, 2007. In this regard, we have identified material weaknesses in our disclosure controls and procedures. We intend to undertake a process to remediate the identified material weaknesses and have already retained a consultant to advise us with respect to our internal controls and reporting processes. However, our limited financial resources may result in our failure to complete satisfactorily this remediation process.

Risks Related to Doing Business in the PRC

Our primary operations are conducted in the PRC and therefore our business, financial condition and results of operation may be adversely affected by changes in the political and social conditions in the PRC.

Our operations in the PRC are subject to special considerations and political and social risks not typically associated with companies in North America and Western Europe. Foreign companies doing business in the PRC must face obstacles from the current system, which is in transition from the communist system to a free market economy. These obstacles include a cumbersome bureaucracy. Further, changes in social conditions, including those stemming from public health and safety concerns, may also adversely affect our business, financial condition and results of operation.

Zhongjin collects its revenue in RMB, while we report earnings and expenditures in United States dollars. Thus, we may be adversely affected by any fluctuations in currency exchange rates between RMB and the United States dollar.

Our sole investment, Zhongjin, conducts its business exclusively in China, and its revenue from operations is settled in RMB. Contrarily, we measure our financial performance and prepare our financial statements in United States dollars. Although the exchange rate between the RMB and the United States dollar has been stable since January 1, 1994 and the Chinese government recently has begun to continuously raise the exchange rates for RMB against the US dollar. It is likely that this trend will continue for some time. Any changes in exchange rates will result in increases or decreases in our costs and earnings, and may also affect the book value of our assets located in the PRC and the amount of our equity.

Changes in the economic policies of the PRC could adversely affect us.

Our operating assets and source of income and cash flows are in the PRC. The PRC economy has, for many years, been a centrally-planned economy, operating on the basis of annual, five-year and ten-year state plans adopted by central PRC governmental authorities, which set out national production and development targets. The PRC government has been pursuing economic reforms since it first adopted its "open-door" policy in 1978. There is no assurance that the PRC government will continue to pursue economic reforms or that there will not be any significant change in its economic or other policies, particularly in the event of any change in the political leadership of, or the political, economic or social conditions in, the PRC. There is also no assurance that we will not be adversely affected by any such change in governmental policies or any unfavorable change in the political, economic or social conditions, the laws or regulations, or the rate or method of taxation in the PRC.

As many of the economic reforms which have been or are being implemented by the PRC government are unprecedented or experimental, they may be subject to adjustment or refinement, which may have adverse effects on us. Further, it is possible for the PRC government to exert significant influence on the PRC economy through state plans and other economic and fiscal measures.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our subsidiary, Zhongjin, and our operations in China are governed by PRC laws and regulations. Zhongjin is generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to domestic companies and wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979 PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new and because of the limited volume of published decisions and their vague and overbroad nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management's attention.

We have not obtained necessary government approvals for ownership in Zhongjin, and thus, we may be unable to enjoy the rights and benefits of legal ownership.

According to PRC laws and regulations, foreign ownership in Zhongjin is prohibited unless government approvals from the relevant agencies, such as Tianjin SAFE offices, the Ministry of Commerce, and the State Administration for Industry and Commerce are obtained. Although Genex has entered into agreements with the original stockholders of Zhongjin in respect of the transfer of legal title of the equity interest in Zhongjin to Genex, Genex has not yet submitted an application for the change of the equity interest. The merger and acquisition regulations issued on September 8, 2006 by the Chinese government have imposed additional difficulties for obtaining such approvals.

In the event that we fail to obtain necessary government approvals, there is a risk that we may not have an equity interest in Zhongjin and may not enjoy the rights and benefits of being the legal owner of Zhongjin, including repatriation of capital and distribution of profits.

In order to protect our interest in Zhongjin, we entered into a trusteeship agreement and a contract for management services on May 19, 2006. Both the trusteeship agreement and the contract for management services bore an effective date of June 17, 2004. Under the trusteeship agreement, entered into by us and Mr. Fuzhi Song and Mr. Deshun Song, the legal stockholders of Zhongjin, the equity shares in Zhongjin are to be held for our benefit and we are given the exclusive power and authority to exercise any and all stockholder rights with respect to all the equity shares in Zhongjin as if we were the legal, registered owner of such shares. The contract for management service entered into by us and Zhongjin requires us to provide management, administrative and related services to Zhongjin in exchange for a base annual fee of RMB 1,000 and a floating fee equal to Zhongjin's gross revenues less its gross expenses for each payment period. To date, Zhongjin has not actually made these payments to Genex. Further, payment of such amounts to Genex would likely require approval of the PRC government, and it is unclear whether, and when, such approval will or could be obtained.

As a result of these contractual arrangements, which obligate us to absorb a majority of the risk of loss from Zhongjin's activities and enables us to receive a majority of Zhongjin's expected residual returns, management believes Zhongjin is a variable interest entity under Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". Because the legal stockholders of Zhongjin, Mr. Fuzhi Song and Mr. Deshun Song, do not have the characteristics of a controlling financial interest, we should be considered the primary beneficiary of Zhongjin. Accordingly, we consolidate Zhongjin's results, assets and liabilities.

Zhongjin may be restricted from paying dividends or making any other payments to us in the future, including payments under the Management Agreement

We are a company incorporated in the State of Delaware and do not have any assets or conduct any business operations other than our investments in Zhongjin. However, PRC regulations currently permit payment of dividends to fund certain reserve funds only out of accumulated profits, as determined in accordance with PRC accounting standards and regulations. The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. Therefore, we may experience difficulties in the future in completing the administrative procedures necessary to obtain and remit foreign currency. See " Government control of currency conversion may affect the value of an investment in our securities." This may include difficulties in making payments to Genex under the Management Agreement.

The price of our primary product, RBX, is subject to government price controls, which may adversely affect our revenue and profitability.

The price of our primary product, RBX, is subject to government price controls, which the PRC has only recently implemented. The prices of medical devices and equipment are set by the government after the Bureau of Price Management of the PRC examines and considers the available products and determines a price that is suitable to all buyers. Under new regulations, hospitals are now required to implement a bidding system, in which suppliers may offer their products within a range of the price set by the PRC. Therefore, changes to the price of RBX by the PRC in the future and the newly implemented bidding system in place at China's hospitals may adversely affect our revenue and profitability.

Government control of currency conversion may affect the value of an investment in our securities.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Shortages in the availability of foreign currency may restrict the ability of Zhongjin to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Given that the Company has not yet received government approval of the transfer of Zhongjin's equity interest to Genex, it is unlikely the PRC government would approve the payment of management fees to Genex under the Management Agreement between Zhongjin and Genex. There is no assurance that we will obtain all required conversion approvals or that the PRC authorities will not impose greater restrictions on the convertibility of Chinese renminbi in the future. Because a significant amount of our future revenues may be in the form of Chinese renminbi, our inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit our ability to utilize revenue generated in Chinese renminbi to make payments under the Management Agreement or to fund any business activities outside China.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could limit Zhongjin's ability to distribute dividends.

The Ministry of Commerce of China, together with several other government agencies, promulgated regulations for the approval of foreign investment in Chinese assets or equity interests ("M&A rule") which became effective on September 8, 2006. The M&A rule provides the clarifications to the previous regulations and further regulates the requirements and procedures on the acquisition and merger of PRC domestic enterprises by foreign investors. It has centralized the approval authorities and has provided the government with more authority to evaluate and control the terms of any transactions. Even though the M&A rule has provided a new application and approval system, the vague and broad nature of the rule have made compliance with the rule more complicated, time-consuming and costly. It is difficult to predict the extent to which the rule will apply to the Genex-Zhongjin transaction, and it may cause great uncertainty for Zhongjin to obtain the necessary approvals.

The failure or inability of our PRC resident stockholders to complete the approval procedures may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit Zhongjin's ability to distribute dividends to us.

We cannot predict how the M&A rule and other relevant regulations will affect our business operations or future strategy since we cannot determine how they will be interpreted or implemented. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the relevant rules. This may restrict our ability to implement an acquisition strategy and could adversely affect our business and prospects.

Stockholders may experience difficulties effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us or our management.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, all of our senior executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers, including with respect to matters arising under United States federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

Risks Related to Our Common Stock

We are not likely to pay cash dividends in the foreseeable future, thus negatively affecting our stockholders' return on investment.

We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future, but will review this policy as circumstances dictate. Should we decide in the future to do so, our ability to pay dividends and meet other obligations depends on the receipt of dividends or other payments from Zhongjin. In turn, Zhongjin's ability to pay dividends or make other distributions or payments to us may be subject to government restrictions, including those relating to the conversion of RMB to United States dollars. As such, it may be extremely difficult for us to receive payments of management fees, dividends, distributions or other payments from Zhongjin for the foreseeable future, particularly in light of the fact that we have not yet received approval from the Chinese government to acquire the equity interests in Zhongjin.

No public market exists for our common stock, which will make it difficult for our stockholders to liquidate any investments in our stock.

While our equity securities are listed for trading on the Pink Sheets under the trading symbol "GENX.PK," there is no significant or consistent public market for our common stock, and no assurance can be given that a market will develop or that a stockholder will ever be able to liquidate an investment in our common stock without considerable delay, if at all. If a market should develop, the price may be highly volatile.

Factors such as those discussed in this Risk Factors section may have a significant impact upon the market price of the securities. Owing to the low price of the securities, many brokerage firms may not be willing to effect transactions in the securities. Even if a purchaser finds a broker willing to effect a transaction in these securities, the combination of brokerage commissions, state transfer taxes, if any, and any other selling costs may exceed the selling price. Further, many leading institutions will not permit the use of such securities as collateral for any loans.

Because the securities registered hereunder have not been registered for resale under the laws of any state, the holders of such shares, and persons who desire to purchase them in any trading market that might develop in the future, should be aware that there may be significant state restrictions upon the ability of investors to sell the securities and of purchasers to purchase the securities. Accordingly, investors should consider the secondary market for our securities to be a limited one.

Our common stock is subject to the "penny stock rules" of the SEC, which will make transactions in our common stock cumbersome and may reduce the value of an investment in our common stock.

Our securities are subject to the "penny stock rules" adopted pursuant to Section 15(g) of the Exchange Act. Such rules require, among other things, that brokers who trade "penny stock" to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security. Many brokers have decided not to trade "penny stock" because of the requirements of the "penny stock rules" and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. In the event that we remain subject to the "penny stock rules" for any significant period, there may be an adverse impact on the market for our securities. Because our securities are subject to the "penny stock rules", investors will find it difficult to dispose of our securities. Further, it will be more difficult to obtain accurate quotations, needed capital and coverage for significant news events since major wire services generally do not publish press releases about such companies.

Our outstanding shares of common stock are "restricted securities" within the meaning of Rule 144 of the Securities Act of 1933, as amended, and a subsequent sale of these shares may have a depressive effect upon the price of our common stock.

Our restricted shares of common stock may be resold only pursuant to an effective registration statement or under the requirements of Rule 144 of the Securities Act of 1933, as amended (the "Securities Act"), or other applicable state securities law. Rule 144 provides in essence that a person who has held restricted securities for a prescribed period may, under certain conditions, sell every three months in brokerage transactions a number of shares that does not exceed the greater of 1% of the number of shares of our common stock then outstanding or the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale. There is no limit on the amount of restricted securities that may be sold by a non-affiliate after the restricted securities have been held by the owner for a period of at least one year. A sale under Rule 144, or under any other exemption from the Securities Act, if available, or pursuant to subsequent registrations of present stockholders' common stock, may have a depressive effect upon the price of our common stock.

Since our directors and officers own a significant percentage of our issued and outstanding common stock, any future sales of their shares may result in a decrease in the price of our common stock and the value of our stockholders' investment.

Our directors and officers currently own 13,170,152 shares of the total 17,845,732 shares of our common stock issued and outstanding. These shares are available for resale to the public under Rule 144 of the Securities Act. Under Rule 144, our directors and officers are entitled to sell, within any three-month period, a number of shares that do not exceed the greater of 1% of the number of shares of our common stock then outstanding or the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale. The possibility of a future sale of a significant amount of shares held by our directors and officers could decrease the market price of our common stock if the marketplace does not adjust orderly the increase in the shares in the market. In such case, the value of our stockholders' investment in us will decrease.

Item 2. Description of Property

Our principal facility is located at No. 17 Bridge, Waihuanxian, Xiqing District, Tianjin City, China. We lease a 600 square meter factory that includes areas for laboratories, storage, production and manufacturing. We also lease 436 square meters for our executive offices that are located at Room 1801, Guangyin Building, Youyibeilu, Hexi District, Tianjin City, China.

The factory rent is set at \$8,161 per year from June 1, 2005 to May 31, 2007. Beginning January 1, 2006, the office rent changed from \$9,510 per year to \$19,043 per year. The Company has renewed the leases for factory and office spaces for an additional two years from June 1, 2007 to May 31, 2009 at an annual rent of \$8,161 and \$19,043, respectively.

Item 3. Legal Proceedings

We are not a party to any pending legal proceeding. From time to time, we may be involved in various claims, lawsuits, disputes with third parties, actions involving allegations of discrimination or breach of contract actions incidental to the normal operations of the business.

Item 4. Submission of Matters to a Vote of Security Holders

Although the Company intends to have stockholder meetings in the future, no such meeting has been held since the Company's formation. Accordingly, no matter was submitted to a stockholder vote during the 2007 fiscal year.

PART II

Item 5. Market for Company's Common Stock and Related Stockholder Matters

We trade on the Pink Sheets under the symbol "GENX.PK". The following quotations reflect the high and low bids for our common stock based on inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions. The high and low bid prices for our common stock for each full financial quarter for the two most recent full fiscal years were as follows:

<u>Quarter Ended</u>	High	Low
2007		
4th Quarter	\$0.45	\$0.15
3rd Quarter	\$0.51	\$0.15
2nd Quarter	\$0.25	\$0.13
1st Quarter	\$0.25	\$0.11
2006		
4th Quarter	\$0.16	\$0.06
3rd Quarter	\$0.18	\$0.09
2nd Quarter	\$0.24	\$0.10
1st Quarter	\$0.28	\$0.17

As of December 31, 2007, there were 8 stockholders of record of our common stock. We have not paid any dividends on our common stock since inception and do not anticipate that dividends will be paid at any time in the immediate future.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operation

THIS ANNUAL REPORT ON FORM 10-KSB CONTAINS FORWARD-LOOKING STATEMENTS, INCLUDING, WITHOUT LIMITATION, STATEMENTS REGARDING OUR EXPECTATIONS, BELIEFS, INTENTIONS OR FUTURE STRATEGIES THAT ARE SIGNIFIED BY THE WORDS "EXPECTS," "ANTICIPATES," "INTENDS," "BELIEVES," "MAY," "WILL," "ESTIMATE," "CONTINUE," OR SIMILAR LANGUAGE. THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS, UNCERTAINTIES AND OTHER FACTORS. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS FORM 10-KSB ARE BASED ON INFORMATION AVAILABLE TO US ON THE DATE HEREOF AND SPEAK ONLY AS OF THE DATE HEREOF. THE FACTORS DISCUSSED ABOVE UNDER "RISK FACTORS" AND ELSEWHERE IN THIS ANNUAL REPORT ARE AMONG THOSE FACTORS THAT IN SOME CASES HAVE AFFECTED OUR RESULTS AND COULD CAUSE THE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Overview

Genex, formerly known as KS E-Media Holdings, Inc., was incorporated in the State of Delaware on February 28, 2002. Prior to June 17, 2004, Genex was considered a development stage company. Genex was a start-up Internet based fulfillment company with offices in Vancouver, BC, Canada.

On June 8, 2004, Genex entered into the Share Purchase Agreement, which provided for the acquisition by Genex of 100% of Zhongjin's shares in exchange for 3,658,375 restricted shares of Genex's common stock which were issued to the Zhongjin stockholders. On June 17, 2004, the stock purchase made pursuant to the Share Purchase Agreement was consummated. On June 27, 2004, the Company effectuated a four-for-one stock dividend of its common stock, and on June 29, 2004, changed its name to the present name.

Although the Share Purchase Agreement was consummated, under current PRC laws and regulations, foreign ownership of Zhongjin is prohibited unless the Company obtains government approvals from the Tianjin offices of the State Administration of Foreign Exchange, the Ministry of Commerce, and the State Administration for Industry and Commerce. Failure to obtain government approval may result in the Company's inability to enjoy the benefits of legal ownership, including repatriation of capital and distribution of profits.

The Company has yet to submit applications to receive government approval of the transfer of Zhongjin's equity interest; however, to protect its interest in Zhongjin, the Company entered into a trusteeship agreement and a contract for management services ("Management Agreement") on May 19, 2006. Both the trusteeship agreement and the Management Agreement provided for an effective date as of June 17, 2004. Under the trusteeship agreement, entered into by the Company and Mr. Fuzhi Song and Mr. Deshun Song, the legal stockholders of Zhongjin, the equity shares in Zhongjin are to be held for the benefit of the Company and the Company is given the exclusive power and authority to exercise any and all stockholder rights with respect to all the equity shares in Zhongjin as if the Company were the legal, registered owner of such shares. The Management Agreement entered into by the Company and Zhongjin, requires the Company to provide management, administrative and related services to Zhongjin in exchange for a base annual fee of RMB 1,000 and a floating fee equal to Zhongjin's gross revenues less its gross expenses for each payment period. These fees have not been paid to Genex to date. Further, payment of such amounts to Genex would likely require approval of the PRC government, and it is unclear whether, and when, such approval will or could be obtained.

Zhongjin's Chairman of the Board of Directors, Mr. Fuzhi Song, serves as the Company's President, Chief Executive Officer and Chairman of the Board of Directors. Mr. Shuli Zhang serves as Chief Financial Officer and Treasurer of the Company, and Ms. Sufen Ai is the Company's Secretary.

About Zhongjin

Zhongjin is organized under the laws of the PRC and is headquartered in Tianjin, China. Zhongjin engages in the business of producing and distributing RBX, which is considered a medical device that accelerates bone healing. Zhongjin markets its medical devices to hospitals and medical device resellers in China and aims to position itself as a comprehensive provider of bone grafting products and services. Presently, Zhongjin distributes its medical devices to more than 500 hospitals in 30 provinces throughout China.

Results of Operations

Year Ended December 31, 2007 Compared To Year Ended December 31, 2006

The accompanying consolidated financial statements at and for the year ended December 31, 2007 include the accounts of Genex and Zhongjin for the year then ended. The historical results for the year ended December 31, 2006 include the accounts of Genex and Zhongjin from the date of Zhongjin's acquisition for the year then ended. All significant inter-company transactions have been eliminated in consolidation.

Revenues. For the year ended December 31, 2007, net sales were \$3,237,155 as compared to net sales of \$2,438,229 for the year ended December 31, 2006, reflecting an increase of \$798,926 or 33%. The increase in revenue was mainly due to the Company's efforts to continuously improve sales networks as well as strengthening sales force.

Gross Profit. For the year ended December 31, 2007, total gross profit was \$2,874,440, or 88.8% of total net sales, as compared to total gross profit of \$2,220,750, or 91.1% of total net sales, for the year ended December 31, 2006. Gross profit margin slightly decreased by 2.3% during fiscal year 2007 as compared to fiscal year 2006. The decrease in gross profit margin was mainly due to an increase in incurred repair and maintenance expenses for a factory plant as compared to fiscal year 2006.

Selling Expenses . For the year ended December 31, 2007, selling expenses were \$1,032,233, as compared to \$673,593 for the year ended December 31, 2006, reflecting an increase of \$358,640, or 53.2%. The Company engaged consulting firms to assist with the management and coordination of conducting or sponsoring training programs and seminars for physicians, participating in product trade shows, conducting or sponsoring medical case studies, sponsoring academic research and technical evaluations of the Company's products, and providing additional training. Payments for these expenditures amounted to \$300,662 in 2007. The traveling, communication, salaries, staff welfare expenses and sundry expenses of sales and marketing personnel in 2007 increased by \$148,965 as compared to 2006, due to an increase in the level of such activities and sales force. The aforementioned increases were largely offset by decreases in advertising expenses and other miscellaneous expenses, the amount of the decrease totalling \$90,988.

General and Administrative Expenses . For the year ended December 31, 2007, general and administrative expenses were \$1,180,079, as compared to general and administrative expenses of \$699,341 for the year ended December 31, 2006, reflecting an increase of \$480,738, or 68.7%. The Company made a bad debt provision of \$ 760,141 in 2007, an increase of \$ 751,933 compared to 2006. However, the increase was largely offset by a \$181,177 decrease in consulting fees.

Research and Development Expenses .. For the year ended December 31, 2007, research and development expenses were \$195,991, as compared to research and development expenses of \$1,137 for the year ended December 31, 2006. These research and development expenses incurred in 2007 were mainly due to expenditures of a research for a new bone grafting material, which was conducted by Golden World Drug Research Centre, a related party. This research and development is still at the planning and implementation stage, and has not yet resulted in a new product available for sale.

Other income . Interest income, net of interest expense, for the year ended December 31, 2007, increased to \$254,246, from \$179,109 for the year ended December 31, 2006 due to an increase in interest-bearing cash advances to related parties during the year ended December 31, 2007 as compared to the year ended December 31, 2006. These amounts have been accrued but have not been paid.

Net income. The Company recorded net income of \$342,549 for the fiscal year ended December 31, 2007 as compared to a net income of \$618,963 for the fiscal year ended December 31, 2006, a decrease of \$276,414. This was primarily due to the significant increase in selling expenses , general and administrative expenses and research & development.

Liquidity and Capital Resources

Operating

For the fiscal year ended December 31, 2007, the Company's operations provided cash resources of \$529,657, as compared to total cash resources of \$1,180,236 for the year ended December 31, 2006. The decrease was mainly due to the decrease of net income along with an increase in the levels of accounts receivable, largely offset by an increase in accounts payable, accrued liabilities and other current liabilities.

Investing

During the fiscal year ended December 31, 2007, the Company expended net cash of \$ 1,879,599 in investing activities, mainly for advancing cash to related parties. For the fiscal year ended December 31, 2006, the Company utilized \$1,298,543 in investing activities.

Financing

Net cash provided by financing activities was \$1,567,089 for the fiscal year ended December 31, 2007 compared to \$6,297 provided in financing activities for the fiscal year ended December 31, 2006. This was mainly attributable to a \$555,798 increase in net proceeds from a loan guaranteed by Mr. Fuzhi Song, Director and CEO of the Company, a \$640,759 increase in amounts due to related parties and a \$364,235 increase in received subsidies from a government authority to finance hi-tech projects in the year ended December 31, 2007 as compared to the year ended December 31, 2006. We anticipate that, based on current plans and assumptions relating to our company's existing operations, our projected cash flow from operations is sufficient to support our working capital requirements for our company's planned operations for the next twelve months.

Plan of Operation

The Company anticipates that, based on current plans and assumptions relating to its existing operations, its projected cash flow from operations is sufficient to support the Company's working capital requirements for its planned operations for the next twelve months.

Tianjin Jinshi Group, a related party of the Company, is currently building a new 111,116 square foot factory. The construction began in October 2006 and is expected to be completed in July 2008. Mr. Song, our company's Chairman of the Board of Directors, Chief Executive Officer and President, is the Chairman of the Board of Directors and General Manager of the Tianjin Jinshi Group. The investment of the project is expected to be approximately \$12 million. As of December 31, 2007, the Company financed approximately \$5.4 million of the new facility pursuant to related party lending transactions, as discussed under "Item 12. Certain Relationships and Related Transactions, and Director Independence." The remainder of the new facility has been financed by Tianjin Jinshi Group and its subsidiaries. Considering requirements of expansion of the sales network and production of more innovative products, the Company intended to purchase or lease the new plant from Tianjin Jinshi Group. Although it is uncertain whether or not the future benefit will recover the cost of the new facility, management believed that the temporary unused production capacity will be gradually utilized by the Company's efforts to optimize its sales management and strengthen the research and development of more high-tech products with high added value. On January 24, 2007, Zhongjin entered into a trust loan agreement with Shanghai Pudong Development Bank with Mr. Song, our Company's Chairman of the Board of Directors, Chief Executive Officer and President, serving as the trustor. The loan was made for \$574,980 with the term of one year and interest bearing at 9% per annum. The loan was repaid on January 23, 2008. The purpose of the loan was for the scale production of guided bone biological medical active material.

Exchange Rate

Fluctuations of currency exchange rates between RMB and the United States dollar could adversely affect our business since our sole investment conducts its business exclusively in China and its revenue from operations is settled in RMB. The Chinese government controls its foreign reserves through restrictions on imports and conversion of RMB into foreign currency. Although the RMB to United States dollar exchange rate has been stable since January 1, 1994 and the Chinese government has stated its intention to maintain the stability of the RMB's value, there can be no assurance that exchange rates will remain stable. The RMB could devalue against the United States dollar. Exchange rate fluctuations may adversely affect our revenue arising from the sales of products in China and denominated in RMB and our financial performance when measured in United States dollars.

The Company maintains its books and accounting records in RMB, the PRC's currency and the Company's functional currency. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. Cumulative translation adjustment amount and translation adjustment gain at and for the year ended December 31, 2007 amounted to \$333,870.

On July 21, 2005, the PRC government reformed the exchange rate system into a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies. The People's Bank of China (the "Bank of China") announces the closing price of a foreign currency, such as the United States dollar, traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day. This closing price then becomes the unified exchange rate for trading against the RMB on the following working day. The daily trading price of the United States dollar against the RMB in the inter-bank foreign exchange market is allowed to float within a band of $\pm 0.3\%$ around the unified exchange rate published by the Bank of China. This quotation of exchange rates does not imply free convertibility of RMB to other foreign currencies. All foreign exchange transactions continue to take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the Bank of China. Approval of foreign currency payments by the Bank of China or other institutions requires submitting a payment application form together with invoices, shipping documents and signed contracts.

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment of SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The statement is effective for all financial instruments acquired or issued after the beginning of the Company's fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 has not had any impact on the Company's consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets", an amendment of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. Management does not anticipate that this statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2008. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", which amended several other FASB Statements. SFAS No. 158 requires recognition on the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in other comprehensive income of unrecognized gains or losses and prior service costs or credits arising during the period. Additionally, SFAS No. 158 requires the measurement date for plan assets and liabilities to coincide with sponsors year-end. The adoption of SFAS No. 158 has not had a material impact on the Company's consolidated results of operations or financial position.

The FASB issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes", in July 2006. This interpretation establishes new standards for the financial statement recognition, measurement and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The new rules will be effective for the Company in the first quarter of 2008. The Company continues to evaluate the impact of this interpretation, and does not anticipate that its adoption will have a material effect on its financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 requires an analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the fiscal year beginning November 15, 2006. The adoption of SAB No. 108 has not had a material impact on the Company's consolidated results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of SFAS 115", which allows for the option to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The adoption of SFAS No. 159 has not had a material impact on the Company's consolidated results of operations or financial position.

In December 2007, the FASB issued FASB 141(R), "Business Combinations" of which the objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination.

In December 2007, the FASB issued FASB 160 "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No.51" of which the objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way - as an entity in the consolidated financial statements. Moreover, Statement 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions.

Both FASB 141(R) and FASB 160 are effective for fiscal years beginning after December 15, 2008. The Company does not believe that the adoption of these standards will have any impact on its financial statements.

In March 2008, the FASB issued SFAS No.161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB statement No.133. SFAS No.161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No.161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with early application encouraged. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending December 31, 2009. The Company is currently evaluating the impact of SFAS No. 161 on its financial statements.

Item 7. Financial Statements

The consolidated financial statements and schedules that constitute Item 7 are attached at the end of this Annual Report on Form 10-KSB. An index to the consolidated financial statements is also attached at the end of this Annual Report on Form 10-KSB.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On June 9, 2004, the Company notified Manning Elliott, Chartered Accountants ("Elliott"), its independent public accountants, that the Company was terminating Elliot's engagement effective June 17, 2004. The Company's Board of Directors approved such decision.

Elliott's opinion in its report on the Company's financial statements for the years ended September 30, 2002 and 2003 did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to audit scope or accounting principle. During the two most recent fiscal years and the subsequent interim period ended June 17, 2004 (the date of termination), there were no disagreements with Elliott on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Elliott's satisfaction, would have caused Elliot to make reference to the subject matter of the disagreement in connection with its report for any such periods.

From June 17, 2004 to October 26, 2004, the Company engaged Kabani & Company, Inc. ("Kabani") as its independent public accountants. Prior to Kabani's dismissal, there were neither disagreements with Kabani on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to Kabani's satisfaction, would have caused Kabani to make reference to the subject matter of the disagreement in connection with its report, nor any "reportable events" as such term as described in Item 304(a)(1)(iv) of Regulation S-B.

On October 26, 2004, the Board of Directors dismissed Kabani as the Company's independent public accountants, and on October 28, 2004, appointed Weinberg & Company, Inc. ("Weinberg") to serve as the Company's independent public accountants. The Company subsequently dismissed Weinberg on March 29, 2005. Weinberg's reports on the Company's financial statements since the last fiscal quarter ended September 30, 2004 neither contained an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. From the time the Company engaged Weinberg as its independent public accountants and during any subsequent interim period preceding the dismissal, there were no disagreements with Weinberg on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Weinberg's satisfaction, would have caused Weinberg to make reference to the subject matter of the disagreement in connection with its report during such periods. In addition, there were no "reportable events" as such term is defined in Item 304(a)(1)(iv) of Regulation S-B.

On March 29, 2005, the Board of Directors re-appointed Kabani to serve as the Company's independent public accountants. Kabani served as the Company's independent public accountants until its dismissal on November 16, 2005. Kabani's reports on the Company's financial statements since the last fiscal year ended December 31, 2004 neither contained an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. From the time the Company engaged Kabani as the Company's independent public accountants and during any subsequent interim period preceding the dismissal, there were no disagreements with Kabani on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Kabani's satisfaction, would have caused Kabani to make reference to the subject matter of the disagreement in connection with its report during such periods. There were also no "reportable events" as defined in Item 304(a)(1)(iv) of Regulation S-B.

Following Kabani's dismissal on November 16, 2005, the Board of Directors appointed GC Alliance Limited, Certified Public Accountants ("GC Alliance"), to serve as the Company's independent public accountants. The Company dismissed GC Alliance on March 29, 2006. GC Alliance's reports on the Company's financial statements since the last fiscal quarter ended September 30, 2005 neither contained an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. From the time the Company engaged GC Alliance as its independent public accountants and during any subsequent interim period preceding the dismissal, there were no disagreements with GC Alliance on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to GC Alliance Limited's satisfaction, would have caused GC Alliance to make reference to the subject matter of the disagreement in connection with its report during such periods. Further, there were no "reportable events" as such term is defined in Item 304(a)(1)(iv) of Regulation S-B.

On March 29, 2006, the Company appointed Schwartz Levitsky Feldman LLP, Chartered Accountants ("Schwartz Levitsky"), to serve as the Company's independent public accountants.

Item 8A(T). Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

Under Rule 13a-15 under the U.S. Securities Exchange Act of 1934 ("Exchange Act"), we are required to maintain disclosure controls and procedures, and our management, with the participation of our CEO and CFO, must evaluate the effectiveness of our disclosure controls and procedures.

Disclosure controls and procedures, as defined by Rule 13a-15(e) under the Exchange Act, refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on that evaluation, management concluded that our disclosure controls and procedures were not effective as of December 31, 2007. Management reached this conclusion based upon the material weaknesses in internal control over financial reporting set forth below, as well as the fact that we do not have any in-house personnel, including management personnel or board members, with any training or experience in SEC disclosure principles and practices. In addition, we do not have any formal processes for communicating episodic information to our outside advisers and consultants. We also have not yet conducted any formal internal training programs on SEC disclosure compliance. In addition, as stated further below, we are considering the hiring of an employee or employees with training and experience in US GAAP and SEC rules and regulations.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, and for assessing the effectiveness of our internal control over financial reporting.

We have four employees on our accounting staff, all of whom are professional, experienced accountants trained in accounting rules and procedures generally accepted in the PRC. Our accounting staff receives continuing education in PRC accounting principles. Each such employee has different responsibilities within the accounting staff. Our accounting systems are automated and we maintain security and controls over access to our accounting systems and data. Our accounting functions are supervised by our Chief Financial Officer who is a CPA in the PRC and our payment functions are supervised by our General Manager. In addition, we have an internal audit function in which a trained accountant from one of our affiliated companies reviews selected aspects of our accounting records and systems. Our CFO also conducts periodic reviews of our ledger entries and accounting systems and processes in general. Our internal control procedures are set forth in written documentation. We believe our accounting systems and internal controls are consistent with requirements and standard practices in the PRC for a company of our size.

Notwithstanding the foregoing, we have identified several material weaknesses in our internal control over financial reporting as defined in and for purposes of SEC Rule 13a-15(f) under the Exchange Act. A material weakness under SEC Rule 12b-2 is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis.

These material weaknesses are: (1) inability to timely close our books and records at the end of each reporting period; (2) lack of personnel at the Company and on the board of directors with expertise and training in US accounting principles and practices, (3) lack of independent approval, review and monitoring of related party transactions, and (4) lack of expertise in US tax accounting, lack of effective controls over accounting for non-PRC income taxes and lack of complete documentation relating to taxation in the PRC. We have also identified the following significant deficiencies: deficiencies relating to accounting for consulting fees (which were rectified prior to filing of this report); the absence of an independent audit committee of the board of directors, and the lack of formalized policies and procedures such as a code of conduct and whistleblower policy. As a result of the foregoing, management has concluded that the Company's internal controls over financial reporting were not effective as of December 31, 2007.

Management's assessment of internal controls over financial reporting is ongoing. Further work on our part is necessary to carry out our evaluation on the basis of the criteria established in "Internal Control - Integrated Framework" ("COSO Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management anticipates amending this Report at a later time when it has conducted a further assessment by reference to the COSO Framework.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

In light of the material weaknesses and significant deficiencies described above, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

To address the material weaknesses identified above, management is performing additional analyses and other procedures to evaluate the above referenced weaknesses in our disclosure controls and procedures. Among the possible measures to remediate the material weaknesses is the hiring of additional employees who will help us to timely and accurately close our books and records at the end of each reporting period and who are proficient in the application of U.S. generally accepted accounting principles, as well as SEC rules and regulations. However, due to the limited financial resources of the Company, and the limited number of such persons available for hire in our province, we may be unable to hire additional staff to address our deficiencies. In the meantime, we have retained a consultant to assist us with our internal controls and reporting processes. We will continue to evaluate and address our material weaknesses and consider appropriate remedial measures that are in line with our financial resources.

Changes in Internal Control over Financial Reporting

There were no changes in internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following table sets forth the names and ages of all directors and executive officers of the Company as of December 31, 2007. The Board of Directors is comprised of only one class, and except as otherwise described below, all of the directors will serve until the next annual meeting of stockholders and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. Also provided below are brief descriptions of each director's and executive officers' business experience during the past five years and directorships in other companies subject to the reporting requirements under the federal securities laws.

Name	Age	Position
Mr. Fuzhi Song	56	Chairman of the Board of Directors, Chief Executive Officer and President