深圳市海王英特龍生物技術股份有限公司

SHENZHEN NEPTUNUS INTERLONG BIO-TECHNIQUE COMPANY LIMITDED*

(a joint stock limted company incorporated in the People's Republic of China)

(Stock Code: 8329)

2006

Annual Report

* For identification purpose only

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This report, for which the directors (the "Directors") of Shenzhen Neptunus Interlong Bio-technique Company Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable information enquiries, confirm that, to the best of their knowledge and belief:– (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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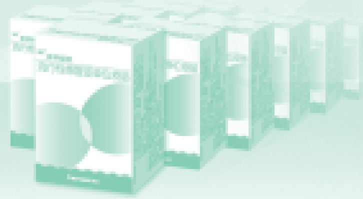
Corporate Information



DIRECTORS

Executive Directors

Mr. Zhang Si Min *(Chairman)*
Mr. Chai Xiang Dong
Ms. Wang Yan

Non-Executive Directors

Ms. Yu Lin
Mr. Ren De Quan

Independent Non-Executive Directors

Mr. Yick Wing Fat, Simon
Mr. Poon Ka Yeung
Mr. Lu Sun

Supervisors

Mr. Feng Jia Xin
Mr. Shen Da Kai
Mr. Yu Jun

MEMBERS OF REMUNERATION COMMITTEE

Mr. Zhang Si Min
(Chairman of the Remuneration Committee)
Mr. Yick Wing Fat, Simon
Mr. Poon Ka Yeung

MEMBERS OF AUDIT COMMITTEE

Mr. Yick Wing Fat, Simon *(Chairman of the Audit Committee)*
Mr. Poon Ka Yeung
Ms. Yu Lin

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Liang Kwan Wah, Andrew *FCPA, CA(NZ)*

COMPLIANCE OFFICER

Mr. Zhang Si Min

AUTHORISED REPRESENTATIVES

Mr. Chai Xiang Dong
Mr. Liang Kwan Wah, Andrew

AUDITORS

Ernst & Young *Certified Public Accountants*

COMPLIANCE ADVISER

First Shanghai Capital Limited
19th Floor, Wing On House, 71 Des Voeux Road, Central,
Central, Hong Kong

LEGAL ADVISER

Stephenson Harwood & Lo
35th Floor, Bank of China Tower, 1 Garden Road,
Central, Hong Kong

PRINCIPAL BANKS

China Construction Bank
Central Sub-branch
Industrial Bank
BaGuaLing Sub-branch

H SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre, 28 Queen's Road East,
Wanchai, Hong Kong

REGISTERED OFFICE

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Shenzhen, Guangdong Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

35th Floor, Bank of China Tower,
1 Garden Road, Central,
Hong Kong

WEBSITE

www.interlong.com

STOCK CODE

8329

Chairman's Statement

To: All shareholders:

In 2006, the State initiated a series of relevant policies, aiming at regulating the administrative measures on medicines, which resulted in the overall shrinkage of the market of prescription medicines from hospitals. Extremely intense market competition was another reason for the continuing decline of the retail price of the Company's major product recombinant human interferon α2b ("rhIFNα2b") for injection. In order to adapt to the market changes and to ensure sustainable development, the Company made a significant adjustment to its marketing model in 2006, transforming from its original self-operated professional sales promotion model into the agency model. In connection with this, in the second half of the year ended 31 December 2006 (the "Year"), the Company has transformed all of the 12 existing offices and 8 existing liaison points into agents. The transformation was fully completed during the Year, upon which, the market has become more transparent and standardized. 2007 is the first year following the Company's business transformation. The Company will be more active in motivating and regularizing the agents in promoting sales.

The new product subunit vaccine of influenza virus ("influenza vaccine") went into official production and passed the examination in late 2006. The Company has adopted the most advanced third-generation sub-unit influenza vaccine technology. It is safer and more suitable for extensive inoculation. The Company also owns the exclusive patent right to use the technology in this relation and is also the first domestic supplier allowed to manufacture sub-unit influenza vaccine. The Company's product will be officially launched for sale in 2007 and is expected to bring active support to the operating cash of the Company.

Construction of the Company's new influenza vaccine plant in Baoan district, Shenzhen has been completed, and the plant was inspected and has obtained approval from the relevant authorities at the end of 2006. Commissioning and trial operation of the machinery is currently being arranged at the workshops.

The new product rhIFNα2b effervescent tablet is expected to be launched in the market in the third quarter of 2007 and is used mainly in the treatment of viral gynecological diseases such as chronic cervical infection. At present, no identical products are available in the PRC and overseas. The Company has filed application with the State Intellectual Property Office of the PRC for the registration of the patent in respect of the related technology. Given the increasing concern of the public about the attack and the morbidity rate of gynaecological diseases in recent years and the fact that interferons are highly effective in immunoloregulation, the potential market demand of such product is huge.

The board of Directors (the "Board") is confident about the business prospects of the Company.

On behalf of the Company and the Board, I would like to express my heartfelt gratitude to all shareholders, business partners and all staff for their consistent support and trust in the Company.

Zhang Si Min
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

The Company was principally engaged in the research and development of modern biological technology, production and sales of cytokine therapeutic drugs and production of vaccines for infectious diseases in the PRC for the Year. During the Year, the Company mainly produced and sold two drugs, namely rhIFNα2b for injection and recombinant human interleukin-2 (125Ser) ("rhIL-2 (125Ser)") for injection. During the Year, the two abovementioned products were mainly sold in the PRC with small quantities exported to the Southeast Asian markets. In addition, during the fourth quarter of the Year, influenza vaccine a new product invested by the Company, has undergone official production and has been permitted to be launched in the market.

INFLUENZA VACCINE BUSINESS

The influenza vaccine business is a key business to be developed by the Company in the future and is also an investment project undertaken by the Company for raising capital through listing. On 25 May 2006, the Company was granted the production approval by the State Food and Drug Administration of China (中國國家食品藥品監督管理局) ("SFDA") in respect of the production of influenza vaccine. Immediately after that, the Company applied for the GMP Certificate from SFDA in respect of the manufacturing workshop with an area of 3,722 square metres for the new product in the Neptunus Industrial Complex. The on site assessments and evaluations on the workshop were conducted by SFDA in July 2006 and the GMP Certificate was granted by SFDA on 18 July 2006 to approve the production. During this period, the Company further improved the manufacturing technique of influenza vaccine, increasing the output efficiency. Pursuant to the production schedule, the Company produced the first batch of influenza vaccine products amounting to approximately 17,000 doses in October 2006. In accordance with the drug administration regulations, the new product has to be submitted to National Institute For The Control of Pharmaceutical and Biological Products (中國生物製品檢定所) ("NICPBP") for examination and need to obtain the certificate of conformity (檢驗合格證明) before it can be launched for sale in the market. The Company submitted the product to NICPBP for examination in November 2006 and obtained the certificate of conformity issued by NICPBP on 30 November 2006. Accordingly, the first batch of products could be launched for sale in the market and are expected to be sold out in 2007.

Construction of the Company's new influenza vaccine plant in Baoan district, Shenzhen has been completed, and the plant has passed construction inspection by the relevant authorities at the end of 2006. Commissioning and trial operation of the machinery is currently being arranged at the workshops.

RESEARCH AND DEVELOPMENT

New product development

Following the completion of the clinical research of rhIFNα2b effervescent tablet, the applications for new medicine certificate and approval for production were submitted to SFDA and the conformity report for the sample submitted for examination in respect of the application for approval for production was issued in June 2006. During the Year, rhIFNα2b effervescent tablet has passed the relevant technical examination. The renovation of the rhIFNα2b effervescent tablet workshop has been completed and the Company has made preparation to apply for the GMP Certificate for the workshop.

The clinical trial of rhIFNα2b liposome cream has been completed and the application for new medicine certificate has been submitted to SFDA in February 2007. The Company expects that appraisal of new medicine is time consuming, and has therefore decided to suspend the construction of the workshop.

rhIFNα2b buccal tablet has completed the first phase of clinical trial. However, SFDA dismissed the Company's second phase clinical plan. The Company has submitted the application for administrative reconsideration in writing in September 2006.

For the rabies vaccine in vero cell ("rabies vaccine") project, the Company has submitted the application for new medicine certificate jointly with the cooperation party to SFDA in July 2006. The application is currently in the process of technical examination. Pursuant to the business objectives of the Company as set out in the prospectus dated on 29 August 2005 (the "Prospectus"), the progress in the production for new medicine of rabies vaccine has been slower than expected.

The research and development on other projects have been proceeding smoothly. Both recombinant human liver cell growth factor (重組人肝細胞生長素)（"rhHSS"） and recombinant human nerve growth factor (重組人神經生長因子)（"rhNGF") proceeded to the pre-clinical research stage according to schedule. Pilot test on rhNGF has been undertaken by the cooperation party and the study of pharmacodynamics in animals has been initiated simultaneously.

Details of the actual progress in the above projects and the business objectives of the Company contained in the Prospectus are set out in "Comparison Between the Actual Business Progress and Business Objectives" on page 18 in this report.

Save as disclosed in the Prospectus, the Company has also developed the business of research and development on other new projects. The Company was going to abandon the clinical trial and terminate the research task in relation to the rhIFNα2b eye cream project, due to the change in the current regulations on new medicine registration and the use of eye cream matrix and the clinical trial on rhIFNα2b eye cream involves high research and development risks and long time. On 10 April 2007, the Board has approved the termination of the project.

Patents

On 20 September 2006, the Company obtained the patent certificate for the patent of "recombinant human interferon α2b nasal drop and its preparation method" (Patent No.: ZL2004100367341) with a patent term expiring on 28 April 2024.

On 14 July 2006, the Company obtained the authorisation notice for the "yeast expression system of recombinant human nerve growth factor and its preparation method" (Patent No.: 200510123224.2).

As at 31 December 2006, the Company had four granted patents. Two patent applications have been permitted to be published and seven patent applications are in the process of actual examination. Applications for three patents and the exclusive right to the use of one patent are still in progress. The Company also has one international patent application in progress.

Management Discussion and Analysis

SALES AND MARKETING BUSINESS

Domestic market business

In 2006, the Company's domestic market business was significantly affected in two aspects. On one hand, the State Ministry of Health issued a series of policies for rationalizing orders in the realm of pharmaceutical logistics area, resulting into the shrinking of the scale of sales in national's normal prescription drug. On the other hand, implementation of "the Notice Regarding Further Improvement of the Order of Market Price of Pharmaceutical Products and Medical Services", (「關於進一步整頓藥品和醫療服務市場價格秩序的意見通知」), issued by the National Development and Reform Commission on 19 May 2006, resulted in three reductions in price, with a decrease of 30%, of the Company's principle product of rh1IFNa2b for injection. Due to the above factors, market competition is getting even more intense.

In light of the changes in the market environment and the policies, the Company has adjusted its marketing model accordingly, transforming from its original self-operated professional sales promotion model into an agency model. The Company converted original 12 offices and 8 liaison offices into agencies and cancelled sales expenses and sold goods at bottom prices for cash. It also offered management and support to the agencies through the sales department. Starting from July 2006, sales and marketing expenses decreased by approximately 75.3% when compared to the same period last year, this indicates remarkable income results have been achieved. The business transformation was fully completed in October 2006.

Affected by the approval progress, the influenza vaccine has not been launched in the market in 2006. Therefore, the Company did not form a professional team to conduct sales. However, the Company has arranged academic exchanges and promotions between medical professionals and epidemic prevention institutions in order to extend the influence of the influenza vaccine on the market.

INTERNATIONAL MARKET BUSINESS

The business of the Company in Pakistan continued to grow, with the Company's rhIFNa2b for injection possessing the largest market share. During the Year, the Company successfully completed the medicine registrations of rhIFNα2b for injection in Indonesia and the Philippines and had distributed the products to Myama, Sri Lanka and Cambodia through its distributors in Indonesia. In addition, the Company had submitted or is submitting medicine registration information to the relevant departments in countries such as Korea, Thailand, Ukraine, Columbia, Mexico and Vietnam.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue of the Company and its subsidiary, Ascendent Bio-Technology Company Limited, (collectively referred as the "Group"), amounted to approximately RMB20,181,000 for the Year, representing a sharp decline of approximately 59.1% from approximately RMB49,383,000 for the corresponding period of the previous year. Revenue for the Year was derived from two products, namely rhIFNα2b for injection and rhIL-2(125Ser) for injection, which accounted for approximately 80.9% and 19.1% of total revenue respectively. rhIFNα2b for injection remained the major source of revenue. The decline in revenue was mainly attributable to the impact caused by the significant change in the market situation in 2006. From August 2006 onwards, the Company changed its original marketing model mainly based on sales and distribution to a marketing model mainly based on agents pursuant to which products are sold to agents at low prices. The Company no longer undertakes professional marketing and sales promotion of products and achieves savings on expenses by offering sales discounts. Pursuant to the marketing plan formulated by the Company in early 2006, the product rhIL-2(125Ser) for injection should be the major product category for marketing in 2006. However, because of the relatively great impact brought about by the market environment in the Year as well as a drastic decline in the unit price, revenue failed to achieve expected growth. In terms of product sales and unit price, the sales volume and unit prices of various kinds of products of the Group dropped by approximately 25.9% and 44.5% respectively on average over the previous year. During the Year, revenue from domestic sales and export amounted to approximately RMB16,972,000 and RMB3,209,000, accounting for 84.1% and 15.9% of total revenue respectively. Export revenue increased by approximately 87.2% over the corresponding period of the previous year. To promote the international market, the Group revised the prices of export products downwards during the Year within a range of approximately 27.2% to 29.0%. The downward adjustment in prices generated a positive impact, resulting in an increase in total sales volume of approximately 96.3%.

During the Year, the gross profit and the gross margin of the Group were approximately RMB12,484,000 and 61.9% respectively, representing a sharp decrease of approximately RMB29,191,000 and 70.0% as compared with the corresponding period in the last year. The decline in gross profit was partially due to the decrease in sales volume, and was partially due to the continuous drop of the prices. As a result of, amongst other things, cutting the selling prices attributable to the transformation of the Company's marketing model, the prices moved downward. During the Year, the sales volume and the unit prices of all types of the Company's products dropped by approximately 25.9% and 44.5% on average, respectively.

Selling and distribution expenses of the Group amounted to approximately RMB11,002,000 during the Year, accounting for 54.5% of the revenue and representing a drastic decrease of approximately RMB16,747,000. This represented a decrease of approximately 60.4% compared to approximately RMB27,749,000 in the corresponding period in the last year. The major reasons for the decline in expenses include: (i) prior to the Group's amendment of the marketing plan and policy, because of a reduction in total revenue, terminal sales promotion and marketing fees, which were incurred based on a certain percentage of the revenue, also dropped accordingly; (ii) due to the unfavourable impact brought about by the market environment during the Year, the Company decided to change its marketing model in August 2006 by implementing measures such as the reduction of branch offices established for sales and marketing so as to reduce expenses. Of the selling and distribution expenses incurred during the Year, the amount incurred for the payment of fixed expenses such as wages and bonus, welfare expenses, social security payments and depreciation charge was approximately RMB3,760,000, accounting for approximately 34.2% of the selling and distribution expenses. The effect of a reduction in expenses as a result of the change in the marketing pattern has been reflected in the second half of 2006. However, the Company has paid the relevant sales promotion and marketing expenses and the expenses for the operation of branch offices in advance. In addition, fixed expenses such as wages will not decrease with a decline in revenue. Therefore, although total selling and distribution expenses dropped substantially over the corresponding period of the previous year, as the total revenue of the Group has dropped by approximately 59.1% at the same time, the percentage of selling and distribution expenses in the revenue of the Group only decreased by approximately 1.7%. From July 2006 onwards, sales and marketing expenses decreased by approximately 75.3% from the same period last year, achieving remarkable income results.

Administrative expenses of the Group amounted to approximately RMB12,514,000 for the Year, accounting for approximately 62.0% of the revenue and representing a sharp increase of approximately RMB6,784,000 from approximately RMB5,730,000 for the corresponding period of the previous year, representing an increase of approximately 118.4%. The major reasons for the increase in the expenses include: (i) the Group increased manpower and retained professionals to meet its need for future development. Accordingly, the labour costs, including wages, bonus, welfare and social security payments increased by approximately RMB3,286,000; (ii) as the Company moved all its offices to the new plant in Baoan in June 2006, relevant expenses such as travel allowance, depreciation charge and water and electricity charges increased by approximately RMB678,000; (iii) 2006 was the first full financial year following the listing of the Company and the continued listing fee (including auditors' remuneration) amounted to approximately RMB3,073,000, increased by approximately RMB1,884,000 over the corresponding period of the previous year (calculated since the listing date of 12 September 2005 ("Listing Date")); and (iv) depreciation charge increased by approximately RMB403,000 over the corresponding period of the previous year.

Finance costs of the Group amounted to approximately RMB6,564,000 for the Year, increased by approximately RMB5,396,000 from RMB1,168,000 for the corresponding period of the previous year, representing an increase of approximately 462.0%. Interest on bank loans actually paid by the Group amounted to approximately RMB7,011,000 for the Year and approximately RMB467,000 was capitalised during the current period.

Other expenses of the Group amounted to approximately RMB13,494,000 for the Year, increased by approximately RMB6,788,000 for the corresponding period of the previous year, representing an increase of approximately 98.8%. The major reasons for the increase were: (i) research and development costs amounted to approximately RMB6,861,000 for the Year, representing an increase of 49.3% as compared with corresponding period of the previous year; (ii) provision for bad debts for the Year was approximately RMB445,000, a decrease of approximately 79.7% over the corresponding period of the previous year; (iii) loss on disposal of items of property, plant and equipments was approximately RMB453,000 for the Year, as compared with zero last year; (iv) relevant intangible assets were recognised as a result of the production workshop for the influenza vaccine being granted with the GMP certificate and officially commenced its production in July 2006. Accordingly, amortization for six months increased by approximately RMB1,099,000; (v) amortization of expenses for trial production amounting to RMB3,234,000 due to the commissioning of the production workshop for the influenza vaccine in the Neptunus Industrial Complex; and (vi) impairment of intangiable assets amounting to RMB1,403,000, as compared with zero last year.

Total loss before tax of the Group amounted to approximately RMB25,938,000 for the Year, representing a sharp decline of approximately RMB26,880,000 from profit before tax of approximately RMB942,000 for the corresponding period of the previous year. The increase in the loss was mainly attributable to a reduction in revenue but the sales and distribution expenses did not decline to the same extent while other expenses such as administrative expenses, finance costs and other operating expenses increased to different extents.

The net loss attributable to the equity holders of the Group amounted to approximately RMB25,967,000 for the Year, as compared to approximately RMB160,000 for the corresponding period of the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

The Company normally finances its operating and investing activities with its internal financial resources and bank loans. The Company's transactions are mainly denominated in Renminbi and the Company reviews its working capital and finance requirements on a regular basis.

Borrowings and banking facilities

As at 31 December 2006, the Group's bank and cash balance was approximately RMB36,963,000, while it was approximately RMB63,604,000 as at 31 December 2005. The Group's bank facilities debt was approximately RMB130,000,000 (the "Bank Loan") as at 31 December 2006. Of which, long-term bank borrowings was RMB127,000,000. In addition, the controlling shareholder's loans was approximately RMB9,000,000 (the "Shareholder's Loan").

On 23 May 2006, the Company entered into a long-term loan agreement (the "Loan Agreement") with China Development Bank ("CDB") for the grant by CDB of a loan of RMB130,000,000 (the "Company's Loan") to the Company to finance the Company's project on subunit vaccine of influenza virus (the "Project"). Pursuant to the Loan Agreement, the Company repaid the short-term borrowings of RMB60,000,000 which would otherwise fall due on 29 December 2006 to CDB on 24 May 2006. In addition, pursuant to the Loan Agreement, CDB requires the Company, the Company's controlling shareholder, Shenzhen Neptunus Bio-engineering Company Limited ("Neptunus Bio-engineering"), and Mr. Chai Xiang Dong, management shareholder of the Company, to provide guarantee and securities (including without limitation the pledge of the domestic shares of the Company currently held by them to CDB) to secure the Company's Loan. The Company would apply the revenue obtained from the Project to repay the Company's Loan with CDB by instalments.

Pledge of Shares by controlling shareholder

On 23 May 2006, Neptunus Bio-engineering, the controlling shareholder of the Company, entered into an agreement on pledge of shares (the "Agreement on Pledge of Shares by the Controlling Shareholder") with CDB pursuant to which Neptunus Bio-engineering pledged 639,000,000 domestic shares in the Company currently held by it (representing approximately 67.5% of the Company's issued share capital) to CDB as security for the Company's Loan. Pursuant to the Agreement on Pledge of Shares by the Controlling Shareholder, if the Company fails to repay the Company's Loan in accordance with the terms of the Loan Agreement, CDB would be entitled to sell the abovementioned pledged shares and to apply such proceeds to set-off the Company's Loan. The Company received a notice from Neptunus Bio-engineering regarding the abovementioned pledge and made an announcement on 24 May 2006 in respect of the pledge of shares by the controlling shareholder pursuant to Rule 17.19 of the GEM Listing Rules.

The aforesaid Agreement on Pledge of Shares by the Controlling Shareholder does not require Neptunus Bio-engineering to pledge to CDB any new shares in the Company acquired by it during the term of the pledge.

Pledge of Shares by management shareholder

On 23 May 2006, Mr. Chai Xiang Dong, management shareholder of the Company, entered into an agreement on pledge of shares (the "Agreement on Pledge of Shares by Management Shareholder") with CDB pursuant to which Mr. Chai Xiang Dong pledged 47,671,000 domestic shares in the Company currently held by him (representing approximately 5.04% of the Company's issued share capital) to CDB as security for the Company's Loan. Pursuant to the Agreement on Pledge of Shares by Management Shareholder, if the Company fails to repay the Company's Loan in accordance with the terms of the Loan Agreement, CDB would be entitled to sell the abovementioned pledged shares and to apply such proceeds to set-off the Company's Loan. The Company received a notice from Mr. Chai Xiang Dong regarding the aforesaid pledge and made an announcement on 24 May 2006 in respect of the pledge of shares by Management Shareholder pursuant to Rule 17.43 of the GEM Listing Rules.

In addition, pursuant to the aforesaid Agreement on Pledge of Shares by Management Shareholder, if Mr. Chai Xiang Dong acquires new shares pursuant to any bonus or rights issues of shares by the Company to its shareholders during the term of the pledge, the new shares will automatically become the pledged property under the aforesaid Agreement on Pledge of Shares by Management Shareholder and Mr. Chai Xiang Dong shall within 10 days complete all the procedures required to perfect the pledge of the new shares. The Company will, if required, make an announcement in respect of the aforesaid pledge of new shares in the Company by Mr. Chai Xiang Dong pursuant to Rule 17.43 of the GEM Listing Rules.

Although the Agreement on Pledge of Shares by Management Shareholder executed by Mr. Chai Xiang Dong for the purpose of securing the Company's Loan amounts to a provision of financial assistance to the Company, the Company has not provided any security over its assets to Mr. Chai Xiang Dong in respect of this financial assistance and this financial assistance is on normal commercial terms (or better to the Company). The above connection transaction is therefore an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules.

Specific performance obligations by the controlling shareholder

The Loan Agreement imposes specific performance obligations on the Company and Neptunus Bio-engineering as conditions precedent to the drawdown of monies by the Company under the Company's Loan. The Loan Agreement requires Neptunus Bio-engineering to enter into an Agreement on Pledge of Shares by the Controlling Shareholder with CDB and to act as a guarantor with joint liabilities together with the Company for the Company's Loan and to execute a Guarantee Agreement in favour of CDB. Neptunus Bio-engineering has entered into the Agreement on Pledge of Shares by the Controlling Shareholder and the Guarantee Agreement (the "Guarantee Agreement") with CDB on 23 May 2006. The Loan Agreement further requires that such Guarantee Agreement and Agreement on Pledge of Shares by the Controlling Shareholder shall remain valid during the term of the Company's Loan, that Neptunus Bio-engineering will not be in breach of any provision of the Loan Agreement and that there will not be any circumstances in relation to the financial standing of Neptunus Bio-engineering and the pledged property which would prejudice the interests of CDB. In addition, if Neptunus Bio-engineering's ability to provide security is weakened or the value of the pledged property decreases, the Loan Agreement requires the Company to provide compensatory security within a time limit required by CDB and valid security agreements should be entered into between the security providers (including without limitation the Company and Neptunus Bio-engineering) and CDB. The Loan Agreement further requires Neptunus Bio-engineering and Mr. Chai Xiang Dong to undertake to CDB that they will procure that the Company will distribute dividends. Neptunus Bio-engineering and Mr. Chai Xiang Dong have undertaken to strictly observe the conditions for distribution of dividends as provided in the Loan Agreement. They have further undertaken to vote against any proposed resolution regarding the distribution of dividends in the shareholders' meeting of the Company in the event that such conditions as provided in the Loan Agreement have not been satisfied.

Management Discussion and Analysis

Although the Guarantee Agreement and the Agreement on Pledge of Shares by the controlling shareholder executed by Neptunus Bio-engineering for the purpose of securing the Company's Loan amounted to a provision of financial assistance to the Company, the Company has not provided any security over its assets to Neptunus Bio-engineering in respect of this financial assistance and this financial assistance is on normal commercial terms (or better to the Company). The above connection transaction is therefore an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules.

LOAN FROM THE CONTROLLING SHAREHOLDER

The Shareholder's Loan is interest free and has been used to pay off the land premium for the land used by the Company for the construction of a new production base in Baoan, Shenzhen. There is no fixed due date for the repayment of the Shareholder's Loan and the controlling shareholder of the Company has undertaken to the Company that it would not demand repayment of the loan unless and until: (1) the repayment of the Shareholder's Loan will not adversely affect the operations of the Company and/or the implementation of its business objectives as set out in the Prospectus; (2) each of the independent non-executive directors is of the opinion that the repayment of the Shareholder's Loan will not adversely affect the operations of the Company and/or the implementation of its business objectives as set out in the Prospectus and the Company will make an announcement in respect of the decision of the independent non-executive directors; (3) the Company has a positive cash flow and has retained profits in the relevant financial year.

The Company applied to the Shenzhen Branch of the China Construction Bank ("Construction Bank") for a short-term bank loan (the "Short-term Bank Loan") in the sum of approximately RMB20,000,000 for a term of one year with a fixed interest rate on 4 July 2005. The loan was due on 3 July 2006. To settle the Short-term Bank Loan, the Company applied to the controlling shareholder for a subsidy of approximately RMB10,000,000 and made repayment to the Construction Bank together with its own fund of approximately RMB10,000,000 on 11 August 2006. The Company settled the subsidy granted by the controlling shareholder with free funds on 25 December 2006.

Gearing ratio

As at 31 December 2006, the gearing ratio of the Group was approximately 106.0% (2005: 37.0%) and was calculated by a division of the total interest-bearing borrowings of approximately RMB130,000,000 (2005: 55,000,000) by equity of approximately RMB122,624,000 (2005: 148,591,000).

Net current assets

As at 31 December 2006, the Group had net current assets of approximately RMB25,712,000. Current assets comprised cash and cash equivalents of approximately RMB36,963,000, trade receivables of approximately RMB2,849,000, amounts due from related companies of approximately RMB1,933,000, inventories of approximately RMB2,322,000, prepayments, deposits and other receivables of approximately RMB1,553,000, pledged deposits of approximately RMB4,033,000. Current liabilities comprised trade payables of approximately RMB1,260,000, interest-bearing bank borrowings repayed within one year of approximately RMB3,000,000, amounts due to related companies of approximately RMB9,000,000, taxes payable of approximately RMB2,397,000 and other payables of approximately RMB8,284,000. Compared with 31 December 2005's net current asset position of approximately RMB29,106,000, the Group reduced bank deposits as a result of investment in fixed asset construction. Meanwhile, a decrease in sales caused net trade receivables to drop and an increase in long-term liabilities due within one year, resulting in the fall of the net current assets.

Pledge of assets

Pursuant to the pledge agreements entered into between the Company and CDB on 23 May 2006, the Company pledged all its lawfully obtained land use rights, buildings, plant and facilities to CDB and is in the process of completing the relevant pledge procedures.

The Company has also entered into the Agreement on Pledge of the Project Income Rights and Account Supervision, prepaid to which the loan is required to pledge all income rights under the Loan Project with CDB, and to deposit all revenue derived from the Project into the accounts maintained by the Company in the administering branch of CDB and the clearing bank. The revenue will be subject to supervision by CDB and the clearing bank.

FOREIGN CURRENCY RISK

During the Year, approximately 15.9% of the Company's operating revenue was denominated in US dollar and the remainder was denominated in Renminbi. The Company's major sales costs and capital expenditure were denominated in Renminbi. In addition, of the net proceeds from Listing of approximately HK$65,590,000, approximately RMB4,033,000 was pledged to commercial banks in the PRC by way of L/C margin and the remainder was converted into Renminbi during the Year. The Group believes that although the exchange rate between US dollar and Renminbi was subject to certain fluctuations during the Year, the foreign currency risk facing the Company is limited. Therefore, the Company has not adopted any financial instrument for hedging purposes.

SEGMENT INFORMATION

Segment revenue and segment results by business and region of the Company for the Year are set out in note 4 to the financial statements.

Capital commitments

In order to complement the business objectives as stated in the Prospectus, the Company is required to construct new production base and enhance production facilities. As at 31 December 2006, the Company has capital commitments of approximately RMB51,225,000, of which approximately RMB30,860,000 are for the contract sum under contracts of production base construction and equipment purchase. The Directors believe that such capital expenditure can be paid by the funds raised by the listing of the Company and bank borrowings. The relevant details are set out in note 29 to the financial statements.

Contingent Liability

As at 31 December 2006, neither the Group nor the Company had any significant contingent liability.

MAJOR INVESTMENT PLANS

During the Year, other than developing the businesses disclosed in the Prospectus, the Company did not make any other major investment.

During the Year, the Company gained approval from the Ministry of Commerce of the PRC (中國商務部) to establish a subsidiary, Ascendent Bio-Technology Company Limited, with an authorised share capital of HK$10,000, an issued share capital of HK$1 and a total investment amount of US$130,000 in Hong Kong with the scope of operations including trading, consultation and technology corporation. Other than that, there were no other major acquisitions and disposals. At present, the Company does not have any major investment plans.

HUMAN RESOURCES

As at 31 December 2006, the Company employed a total of 315 staff (2005: 313). During the Year, employee costs included the Directors' remuneration of approximately RMB13,529,000 (2005: approximately RMB13,361,000). The salaries and fringe benefits of the Company's employees have remained competitive. Employees' incentive is reviewed and determined annually pursuant to the remuneration and bonus policy of the Company based on the performance of employees. The Company also provides various benefits to its employees.

As at 31 December 2006, the number of employees of the Company grouped according to their function was as follows:

	As at 31 December	
	2006	2005
Research and Development	**20**	24
Production	**144**	101
Quality control	**32**	12
Sales and marketing	**58**	142
Administration	**61**	34
Total	**315**	313

As compared with 31 December 2005, the number of employees under the sales and marketing division of the Company decreased by 84 in 2006. The number of employees under the administration division increased by 27. As for the production and quality control divisions, the number of employees increased by 43 and 20 respectively. Given its decision in changing the operating strategy, the Company has closed down branch offices other than those in Shenzhen and laid off the employees in the original branch offices. Salaries and fringle benefits to some employees will be postponed until around February 2007. However, this did not involve any legal disputes that might arise from labour relations. The production and quality control divisions increased necessary manpower with the new product, influenza vaccine, officially going into production. The administration division increased necessary manpower, mainly due to the establishment of the logistics management and purchasing division for meeting the management needs of the Company. Meanwhile, to meet the requirements of future development, the Company reserves a certain number of professionals.

The Company pays close attention to salaries and benefits of its employees and rewards employees according to the operating results of the Company. In addition, the Company also provides training and development opportunities to its employees.

PROSPECT

Sales and marketing

The Company has completed the transformation from its self-operated professional sales promotion model into the agency model. In 2007, the Company will gradually improve the management of agents, particularly the credit rating of agents, and construct a service support system for agents. In addition, since rhIFNα2b for injection and rhIL-2(125Ser) for injection have been included in the Medicine Catalogue of the National Basic Medical Insurance, the Company will anticipate in the tenders offered by the medical and health system in order to increase sales to end-users.

According to the statistics set out in the report on influenza vaccine issued by NICPBP, a total of approximately 26 million influenza vaccines were produced in the domestic market in 2006. 2007 is the first year for the official launch of the Company's new product influenza vaccine. The Company will actively expand its operations, with the aim of securing the maximum market share.

The Company plans to submit applications for medicine registration in other countries, including Azerbaijan and Ukraine, in 2007 and develop other medicine operations through existing clients to increase business revenue. In addition, the Company also plans to complete the registrations of its new product influenza vaccine in Thailand and Hong Kong in 2007.

Research and development

According to the progress achieved in projects under research and development, the Company anticipates that the new medicine certificate and the permit for production for rhIFNα2b effervescent tablet will be obtained in the second quarter of 2007 and the new medicine certificate for rhIFNα2b liposome cream will be obtained by the end of 2007.

Directors, Supervisors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Zhang Si Min (張思民), aged 45, has been the chairman of the Board since March 1999, and is responsible for the overall strategic planning and development of the Company. He is the founder of the Nepunus Group and also the chairman of the board of the directors of Neptunus Bio-engineering. Furthermore, he is currently the chairman of Shenzhen General Chamber of Commerce. Mr. Zhang has obtained a doctor of philosophy in political economics from Nankai University of the PRC.

Mr. Chai Xiang Dong (柴向東), aged 46, has been appointed the general manager of the Company since February 2000, and is responsible for the Company's day-to-day management and overall activities. In April 2002, he was appointed a Director of the Company. Mr. Chai received his doctorate degree in chemistry science from the Jilin University of the PRC, and was appointed a professor of the chemistry department of the Jilin University of the PRC.

Ms. Wang Yan (王妍), aged 45, has been the deputy general manager of the Company since January 2002, with responsibility for the Company's new products research and development business. In June 2002, she was appointed a Director of the Company. Ms. Wang obtained a doctor degree in bio-chemistry from the Jilin University of the PRC. She worked at one of the biotech research institute in the PRC for over ten years, and received the "State Science and Technology Progress Prize" and has extensive experience in the bio-pharmaceutical field.

NON-EXECUTIVE DIRECTORS

Ms. Yulin (于琳), aged 50, has been appointed a Director of the Company since February 2005, and currently one of the directors and deputy general manager of Neptunus Bio-engineering with responsibility for its new products research and development. Ms. Yu graduated from Sun Yat-Sen University of the PRC, and has 30 years of experience in biochemical and pharmaceutical industries in the PRC.

Mr. Ren De Quan (任德權), aged 62, has been appointed a Director of the Company since November 2006. Mr. Ren has previously served as assistant commissioner of National Chinese Medicine Administrative Bureau and assistant commissioner of National Drugs Surveillance Administrative Bureau, and retired in 2005. Mr. Ren is also an independent non-executive director and a member of the audit committee of China Shineway Pharmaceutical Group Limited, the shares of which are listed on the Main Board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yick Wing Fat, Simon (易永發), aged 49, has been appointed as an independent non-executive Director of the Company since August 2005. Mr. Yick holds a bachelor degree in business administration, majoring in Accounting, from the Chinese University of Hong Kong. He is the fellow members of both the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants in England. Mr. Yick has more than 20 years of experience in audit, direct investment, investment banking and corporate advisory services. Mr. Yick is an independent non-executive director and chairman of the audit committee of Shanghai International Shanghai Growth Investment Limited and Travelsky Technology Limited, the shares of both of which are listed on the Main Board of the Stock Exchange. Mr. Yick is also the independent non-executive director and chairman of the audit committee of China- Biotics, Inc, a company whose shares are quoted on the Over-the-Counter Bulletin Board market of USA.

Mr. Poon Ka Yeung (潘嘉陽), aged 40, has been appointed an independent non-executive Director of the Company since August 2005. Mr. Poon obtained a bachelor degree in mathematics and an MBA degree. He is currently appointed as the honourary institute fellow of the Asia-Pacific Institute of Business of the Chinese University of Hong Kong, lecturer of the MBA program of the Chinese University of Hong Kong and director of Institute of Medical Specialist Limited.

Mr. Lu Sun (魯隼), aged 45, has been an independent non-executive Director of the Company since August 2005. Mr. Lu obtained a bachelor of science degree and a doctor of philosophy degree. Mr. Lu has abundant experience in the bio-pharmaceutical industry.

SUPERVISORS

Mr. Feng Jia Xin (馮家信), aged 39, has been elected as supervisor of the Company since June 2002. He received his bachelor degree of economics from Sichuan University of the PRC and he has more than ten years of experience in investment, audit, finance and accounting.

Mr. Shen Da Kai (沈大凱), aged 42, has been elected as supervisor of the Company since June 2002. Mr. Shen graduated from Luoyang Institute of Technology of the PRC. He is the financial controller of Neptunus Bio-engineering, and has almost twenty years of experience in audit, finance and accountant.

Mr. Yu Jun (喻軍), aged 36, has been elected as supervisor of the Company since June 2006. Mr. Yu is now the manager of the Internet and Technology Department of the Company.

SENIOR MANAGEMENT

Mr. Liang Kwan Wah, Andrew (梁冠華), aged 56, has been appointed Company Secretary, qualified accountant, and one of the authorised representatives of the Company with effect from October 2006. Mr. Liang is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the New Zealand Institute of Chartered Accountants. He has extensive experience in auditing and financial management.

Mr. Song Ting Jiu (宋廷久), aged 51, has been appointed the deputy general manager of the Company since September 2005 and is responsible for infrastructure matters. Mr. Song graduated from Northeast Dianli College of the PRC and worked for the Chinese Academy of Science of the State Economic and Trade Commission and Bank of China, Shenzhen Branch. He has more than 20 years of experience in finance, investment and management.

Ms. Dai Xueying (代雪英), aged 44, has been appointed the deputy general manager of the Company since February 2006 and is responsible for human resources management of the Company. Ms. Dai graduated from the Shenzhen Radio and TV University of the PRC and has more than 10 years of experience in administration and human resources management.

Directors, Supervisors and Senior Management Profile

Ms. Sun Tao (孫濤), aged 40, joined the Company in November 1999 and is currently the sales controller with responsibility for the sales and promotions of Company's products in the domestic market. Ms. Sun holds a bachelor degree in clinical medicine from Nanjing Medical University of the PRC. Ms. Sun has been appointed the sales controller since January 2007.

Mr. Zong Lei (宗磊), aged 53, has been the chief engineer of the Company in August 2003, with responsibility for the construction of new production base. Mr. Zong graduated from the Industrial University of Gansu of the PRC, and was awarded the Senior Engineer qualification by the State Ministry of Health(國家衛生部) in January 1995. He further attended various training programs including the certification of facilities of pharmaceutical manufacturing enterprise in compliance with the European GMP standard in the Netherlands.

Ms. Yu Chai Ling (余彩玲), aged 39, obtained a bachelor degree in biology from Sichuan University, the PRC in 1989 and joined the Company in March 1996 as a manager in the production department. Ms. Yu is now the production controller of the Company.

Report of the Directors

The Directors are pleased to present the report and the consolidated financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is a high and new technology enterprise incorporated in the PRC. The principal activities of the Company comprise the research and development of modern biological technology, production and sale of cytokines category protein therapeutic drugs and production of vaccines for infectious diseases during the Year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last two financial year up to 31 December 2006, and the published consolidated results and assets and liabilities of the Group for this Year is set out on page 88.

DIVIDENDS

The Directors do not recommend the payment of any dividends for the Year (2005: Nil).

COMPARISON BETWEEN THE ACTUAL BUSINESS PROGRESS AND THE BUSINESS OBJECTIVES

The net proceeds from the Company's issue of new share by way of placing on the Listing Date, after deduction of the related expenses, amounted to RMB65,590,000. For the Year, the net proceeds from the listing of the Company were used in accordance with the proposed use of proceeds as disclosed in the Prospectus of the Company:

	From the Listing Date to 31 December 2006 planned Use of Proceeds as set out in the Prospectus (in Million HK$)	**From the Listing Date to 31 December 2006 Actual use of proceeds (in Million HK$)**
Construction of production base and the enhancement of production facilities	66	55

Unutilised proceeds amounting to approximately RMB11,000,000 were placed with commercial banks in the PRC, and will be applied in the future in accordance with the Company's business objectives described in the Prospectus.

The table below shows a comparison between the business objective as stated in the Prospectus and the actual business development of the Company during the Year:

	Anticipated development From the Listing Date to 31 December 2006	Actual development From the Listing Date to 31 December 2006
Construction of new production base and expansion of production facilities		
Subunit vaccine of influenza virus (leased properties)	– Formally commenced operation in the fourth quarter of 2005	– Already in operation in the fourth quarter of 2006
Subunit vaccine of influenza virus (Baoan GMP Factory)	– obtain GMP certificate for the Baoan GMP Fatory	– Construction completed, and was conducting equipment commissioning and verification
rhIFNα2b liposome cream	– complete construction and obtain GMP certificate	– Conditions for production were not yet to be fulfilled, GMP application is deferred
rhIFNα2b vaginal effervescent tablet	– complete construction and obtain GMP certificate	– Construction of workshop completed, prepared to apply for GMP certification
R&D of new products		
Subunit vaccine of influenza virus	– launch product in the market by the end of 2005	– First batch of qualified products have been produced in the fourth quarter of 2006, anticipated to be available for sale in 2007
Rabies vaccine in vero cell	– obtain new medicine certificate and apply for production permit	– Application for new medicine certificate was jointly made with the cooperation party in July 2006 and was in the stage of technical examination
rhIFNα2b buccal tablet	– carry out clinical research	– Second stage clinical plan was rejected. The Company has proposed for administrative review and has applied for the change of indications.

	Anticipated development From the Listing Date to 31 December 2006	Actual development From the Listing Date to 31 December 2006
rhIFNα2b liposome cream	– launch product in the market	– Registration of the new medicine was delayed
rhIFNα2b vaginal effervescent tablet	– launch product in the market in mid 2006	– Has applied for new medicine registration and production approval, and the product is anticipated to be launched in the third quarter of 2007
rhNGF	– complete pre-clinical research and apply for clinical approval	– Process flow testing being conducted with the cooperation party, drug research on animals have been activated
rhHSS	– complete pre-clinical research and apply for clinical approval	– Pre-clinical research in progress
Expansion of sales network		
Expansion plan	– expand sales team for vaccine products	– Due to the delay in the launching of influenza vaccine, professional sales team has not been set up
	– apply medicine registration in more countries	– Drug registration for rhIFNα2b for injection has been completed in Indonesia and Philippines. New drug registration informations had been submitted to the relevant department in countries such as Korea, Thailand, Ukrane, Columbia, Mexico, Vietnam.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the Year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Group's share capital during the Year are set out in note 24 to financial statements.

RESERVES

Details of movements in the reserves of the the Group and Company during the Year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Group's accumulated losses were, calculated in accordance with the relevant rules and regulations and the Group's Articles of Association, amounting to RMB17,296,000.

Capitalized Interest

Details of capitalized interest of the Group during the Year are set out in note 7 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REPURCHASE OF LISTED SHARES OF THE COMPANY

The H shares of the Company have been listed on GEM since 12 September 2005. Save for the placing of shares on GEM, neither the Company nor any of its subsidiaries purchased, sold or repurchased any of the Company's listed shares during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for 60.0% of the total sales for the Year and sales to the largest customer included therein amounted to 37.5%. Purchases from the Group's five largest suppliers accounted for 47.7% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 33.1%.

Save as disclosed in this report, none of the Directors, the supervisors of the Company or any of their associates or any shareholders (who, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Company's five largest customers and suppliers.

Report of the Directors

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the Year and their term of employment were:

Executive Directors

Mr. Zhang Si Min	3 years from his re-appointment on 25 June 2005
Mr. Chai Xiang Dong	3 years from his re-appointment on 25 June 2005
Ms. Wang Yan	3 years from her re-appointment on 25 June 2005

Non-executive Directors

Mr. Shao Chun Jie	3 years from his re-appointment on 25 June 2005 (Mr. Shao resigned on 13 September 2006)
Mr. Ren De Quan	from his appointment on 3 November 2006 to 24 June 2008
Ms.Yu Lin	3 years from her appointment on 25 June 2005

Independent non-executive Directors

Mr. Yick Wing Fat, Simon	from his appointment on 21 August 2005 to 24 June 2008
Mr. Poon Ka Yeung	from his appointment on 21 August 2005 to 24 June 2008
Mr. Lu Sun	from his appointment on 21 August 2005 to 24 June 2008

Supervisors

Mr. Feng Jia Xin	3 years from his re-appointment on 25 June 2005
Mr. Shen Da Kai	3 years from his re-appointment on 25 June 2005
Mr. Yu Jun	3 years from his re-appointment on 25 June 2005

The Company confirms that as at the date of this report, it has received annual confirmations of independence from Mr. Yick Wing Fat, Simon, Mr. Poon Ka Yeung, and Mr. Lu Sun. The Company still considers these three Directors to be independent pursuant to Rule 5.09 of the GEM Listing Rules.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and supervisors of the Company has entered into a service contract with the Company with the effect to 24 June 2008 and is subject to termination by either party giving not less than three month's prior written notice to the other.

None of the Directors or supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' remuneration are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Company. Details of the remuneration of the Directors are set out in note 8 to the financial statements.

According to the service contracts entered into between the Company and its supervisors, the Company does not need to pay any remuneration to the supervisors.

FIVE HIGHEST PAID ENPLOYEES

The five highest paid employees and their remuneration are set out in note 8 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for the service contracts of the Directors and supervisors of the Company as disclosed above, there were no contracts of significance to which the Company or its controlling company was a party and in which a Director or supervisor of the Company had a material interest, either directly or indirectly, subsisting at the end of the Year or at any time during the Year.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND SUPERVISORS IN THE ISSUED SHARES OF THE COMPANY

As at 31 December 2006, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of Laws of Hong Kong)), as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company:

Director/Supervisor	Capacity	Type of Interests	Number of domestic shares held	Approximate percentage of the domestic shares	Approximate percentage of the Company's share capital
Mr. Chai Xiangdong (Note (a))	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Ms. Wang Yan (Note (b))	Beneficial owner	Personal	14,200,000	2.00%	1.50%
Mr. Yu Jun (Note (c))	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

(a) Executive Director and general manager of the Company.

(b) Executive Director and deputy general manager of the Company.

(c) Supervisor and employee of the Company.

Long positions in shares of associated corporations:

Director	Capacity	Type of Interest	Name of associated corporation	Numbers of shares/ percentage in associated corporation	Approximate percentage of associated corporation's share capital
Mr. Zhang Si Min *(Note (a))*	Beneficial owner	Personal	Neptunus Bio-engineering	255,397	0.054%
Mr. Zhang Si Min *(Note (b))*	Beneficial owner	Personal	Ankeen Enterprises	15	15%

Notes:

(a) Mr. Zhang Si Min was interested in approximately 0.054% of the entire share capital of Neptunus Bio-engineering, which was interested in approximately 67.5% of the issued share capital of the Company as at 31 December 2006.

(b) Mr. Zhang Si Min held approximately 15% of the issued capital of Ankeen Enterprises Limited ("Ankeen Enterprises"), which in turn was beneficially interested in approximately 41.9% of the entire share capital of Shenzhen Neptunus Group Company Limited ("Neptunus Group"), which in turn was beneficially interested in approximately 34.38% of the entire share capital of Neptunus Bio-engineering, which in turn was beneficially interested in approximately 67.5% of the share capital of the Company as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, none of the Directors, supervisors or the chief executive of the Company or their respective associates held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during the Year was the Company, its controlling company, or any of its fellow subsidiary a party to any arrangement enabling any Directors or supervisors of the Company or their respective spouse or minor children to acquire benefits by means of an acquisition of shares or underlying shares of the Company or its associated corporations.

SUBSTANTIAL SHARE HOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, so far as the Directors and supervisors of the Company are aware, any interests and/or short positions held by the shareholders (not being a Director, a supervisor or a chief executive of the Company) in shares or underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO or to be interested in, directly or indirectly, 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company, and required to be entered in the register pursuant to section 336 of the SFO were as follows:

Long positions in shares of the Company:

Name of shareholders	Capacity	Type of interest	Number of domestic shares held	Approximate percentage of the domestic shares	Approximate percentage of the Company's share capital
Neptunus Bio-engineering	Beneficial owner	Personal	639,000,000	90%	67.5%
Neptunus Group *(Note (a))*	Interest of a controlled corporation	Corporate	639,000,000	90%	67.5%
Ankeen Enterprises *(Note (b))*	Interest of a controlled corporation	Corporate	639,000,000	90%	67.5%
Ms. Wang Jin Song *(Note (c))*	Interest of a controlled corporation	Corporate	639,000,000	90%	67.5%
Ms. Li Li *(Note (d))*	Family	Family	47,671,000	6.71%	5.04%

Notes:

(a) Neptunus Group was deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering, as Neptunus Group was beneficially interested in approximately 34.38% of the entire share capital of Neptunus Bio-engineering.

(b) Ankeen Enterprises was deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering, as Ankeen Enterprises was beneficially interested in approximately 41.9% of the entire share capital of Neptunus Group, which in turn was beneficially interested in approximately 34.38% of the entire share capital of Neptunus Bio-engineering.

(c) Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering, as Ms. Wang was beneficially interested in approximately 85% of the entire share capital of Ankeen Enterprises, which in turn was beneficially interested in approximately 41.9% of the entire share capital of Neptunus Group, which in turn was beneficially interested in approximately 34.38% of the entire share capital of Neptunus Bio-engineering.

(d) Ms. Li Li ("Ms. Li") was deemed to be interested in the 47,671,000 domestic shares of the Company held by Mr. Chai Xiang Dong, as Ms. Li was the spouse of Mr. Chai, and was taken to be beneficially interested in any shares in which Mr. Chai was interested.

Save as disclosed above, as at 31 December 2006, the Directors and supervisors of the Company were not aware of any other persons (except the Directors, supervisors or chief executive of the Company) who held any interests or short positions in the shares and underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Up to 31 December 2006, the Company has not adopted any share option scheme or granted any option.

CONTINUING CONNECTED TRANSACTIONS

Exempt Continuing Connected Transactions

The continuing connected transactions that are exempt under the GEM Listing Rules during the Year are set out as follows:

(i) Telephone system charges paid to the Neptunus Group

During the period until the Company moved all its offices to the new plant in Baoan in June 2006, the Company has been using the telephone system provided by the Neptunus Group in the premises located at Units A, B and D, 24th Floor, Block A, Neptunus Building, Nanyou Avenue, Nanshan District, Shenzhen, the PRC. The Company has reimbursed 100% of the actual incurred cost to the Neptunus Group in accordance with the monthly telephone bills issued by the telephone company. There was no written contract between the parties in respect of the above transactions.

For the Year, the Company has reimbursed to Neptunus Group the aggregate telephone system charges of approximately RMB6,000. As the annual consideration of this continuing connected transaction was below HK$1,000,0000 and each of the percentage ratios (other than the profits ratio) was less than 2.5% on an annual basis, this continuing connected transaction fell within the exemption under Rule 20.33(3) of the GEM Listing Rules and thus was not subject to any reporting, announcement or shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

(ii) Trademark licensing

The Company entered into trademark licence contracts (the "Trademark Licence Contracts") with Neptunus Shenzhen Neptunus Pharmaceutical Company Limited ('Neptunus Pharmaceutical") on 28 December 2002 and 1 April 2004 respectively pursuant to which Neptunus Pharmaceutical, a wholly owned subsidiary of Neptunus Bio-engineering, granted a non-exclusive licence to the Company to use the trademarks owned by Neptunus Pharmaceutical at nil consideration for the period until the term of registration of such trademarks expires. The term of the Trademark Licence Contracts will be extended automatically as long as the registrations of such trademarks remain effective.

As there was no consideration payable under the Trademark Licence Contracts for the Year, the transactions contemplated under the Trademark Licence Contracts were exempted from any reporting, announcement and shareholders' approval requirements under Rule 20.33(3) of the GEM Listing Rules.

(iii) Property lease

Office premises

On 31 December 2005, the Company and Shenzhen Neptunus Tongai Pharmaceutical Company Limited ("Tongai Pharmaceutical"), a subsidiary of Neptunus Group, entered into a property lease contract pursuant to which Tongai Pharmaceutical as landlord agreed to lease a property with a total gross floor area of approximately 548.91 sq.m. to the Company as tenant for office and operational uses for a period of four months commencing from 1 January 2006 and expiring on 30 April 2006. The leased property was located at Unit A, B and D, 24th Floor, Block A, Neptunus Building, Nanyou Avenue, Nanshan District, Shenzhen, the PRC. The Company has been leasing the property since 2000. For the Year, the aggregate rental paid by the Company to Tongai Pharmaceutical amounted to approximately RMB34,000.

Factory

On 31 December 2005, the Company and Neptunus Pharmaceutical entered into a property lease contract pursuant to which Neptunus Pharmaceutical as landlord agreed to lease a property with a total gross floor area of approximately 1,004 sq.m. to the Company as tenant for factory and manufacturing uses for a period of one year commencing from 1 January 2006 and expiring on 31 December 2006 at a total annual rental of RMB120,480. The leased property is located at portions of levels 2 and 3, Neptunus Industrial Complex, the Fifth Industrial Zone, Beihuan Road, Nanshan District, Shenzhen, the PRC. The Company has been leasing the property since 2001. For the year ended 31 December 2006, the aggregate rental paid by the Company to Neptunus Pharmaceutical amounted to approximately RMB120,480.

On 21 August 2005, the Company and Tongai Pharmaceutical entered into another property lease contract pursuant to which Tongai Pharmaceutical as landlord agreed to lease a property with a total gross floor area of approximately 3,722 sq.m. to the Company as tenant for factory and manufacturing uses for a period of one year commencing from 1 October 2005 and expiring on 30 September 2006 (subject to an option granted to the Company to extend the lease term for another one year) at a total annual rental of RMB267,984. The leased property is located at portions of levels 1 and whole of level 4, Neptunus Industrial Complex, the Fifth Industrial Zone, Beihuan Road, Nanshan District, Shenzhen, the PRC. The above mentioned rental of RMB267,984 attributable to the year 2006 was waived by Tongai Phamaceutical under a waiver agreement dated 30 January 2007.

As the aggregate rental under the lease contracts payable to Tongai Pharmaceutical and Neptunus Pharmaceutical for the Year were less than HK$1,000,000 and each of the percentage ratios (other than the profits ratio) was less than 2.5%, the above transactions fell below the de minimis threshold under Rule 20.33(3) of the GEM Listing Rules and thus were not subject to any reporting, announcement or shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

(iv) Financial assistance

Details of the financial assistances by controlling shareholder and management shareholder are set out under the section headed "Borrowings and banking facilities" and set out in note 30 to the financial statements.

As the financial assistances were on normal commercial terms and no security over the assets of the Company was granted in respect of the financial assistances, such assistances were exempt from any reporting, announcement and shareholders' approval requirements under Rule 20.65(4) of the GEM Listing Rules.

Non-Exempt Continuing Connected Transactions

The continuing connected transactions that are not exempt under Rule 20.33 of the GEM Listing Rules undertaken by the Company during the Year are set out below:

(i) *Service Agreement*

On 21 August 2005, the Company and Neptunus Pharmaceutical (a wholly owned subsidiary of Neptunus Bio-engineering), entered into a general services agreement (the "Service Agreement") for the provision of various services by Neptunus Pharmaceutical to the Company for the purpose of assisting the Company in the manufacture of its products, namely rhIFNα2b for injection and rhIL-2(125Ser) for injection, on the premises of Neptunus Pharmaceutical situate at the Neptunus Industrial Complex. The term of the Service Agreement commenced on 21 August 2005 and will expire on 31 December 2007.

Under the Service Agreement, Neptunus Pharmaceutical will provide the usage of the lyophilisation machine and the necessary labour for the operation of such machine to the Company in completing the lyophilisation processes of rhIFNα2b for injection and rhIL-2(125Ser) for injection in the Neptunus Industrial Complex. Neptunus Pharmaceutical will also provide other common facilities such as water, electricity, air-conditioning, treatment of sewage, and elevator. Neptunus Pharmaceutical will further ensure Neptunus Industrial Complex, the lyophilisation machine and common facilities located at the Neptunus Industrial Complex will at all time comply with the GMP standards, which are amended from time to time. The fees payable under the Service Agreement, including equipment and facilities usage fees, labour fees, energy fees and administrative fees, will be calculated on a cost reimbursement basis by reference to the actual cost incurred in providing such service. Payment will be proportional to the actual staff time incurred in production of the rhIFNα2b for injection and rhIL-2(125Ser) for injection.

When the Service Agreement was signed, it was expected that the aggregate estimated annual service fees payable by the Company to Neptunus Pharmaceutical under the Service Agreement for each of the three years ending 31 December 2005, 2006 and 2007 would not exceed RMB2,107,000, RMB2,335,000 and RMB2,862,000 respectively. The estimated annual fees payable by the Company to Neptunus Pharmaceutical would account for approximately 22.5%, 22.5% and 22.5% of the estimated total production costs of the Company in respect of the two products in 2005, 2006, and 2007 respectively.

On 29 August 2005, the Stock Exchange granted the waiver in respect of the above continuing connected transaction to the Company waiving it from strict compliance with the announcement requirement for continuing connected transactions under Rule 20.47 of the GEM Listing Rules. For the Year, the Company has reimbursed to Neptunus Pharmaceutical the aggregate service fees of approximately RMB882,000, accounting for approximately 16.3% of the Company's total production expenses. Such actual service fees paid does not exceed the annual caps granted under the above mentioned waiver.

(ii) Distribution Agreement

On 21 August 2005, the Company and Shangdong Neptunus Yinhe Pharmaceutical Company Limited ("Shandong Neptunus") (a subsidiary of Neptunus Bio-engineering), entered into a distribution agreement (the "Distribution Agreement"), pursuant to which Shandong Neptunus was appointed the non-exclusive distributor of the products of the Company in Shandong Province of the PRC commencing from 21 August 2005. The Distribution Agreement will expire on 31 December 2007. The price of the Company's products to be sold to Shandong Neptunus will be determined with reference to the market prices and on the basis that the terms of the sale and the prices of the products will not be less favorable than those offered by other independent parties for similar products.

At the time the Distribution Agreement was signed, the Directors expected that the Company's sales to Shandong Neptunus under the Distribution Agreement would not exceed RMB2,612,000, RMB3,265,000 and RMB4,081,000 for the three years ending 31 December 2005, 2006 and 2007 respectively.

On 29 August 2005, the Stock Exchange granted the waiver in respect of the above continuing connected transaction to the Company waiving it from strict compliance with the announcement requirement for continuing connected transactions under Rule 20.47 of the GEM Listing Rules.

The Company and Shandong Neptunus signed three confirmation letters on 30 November 2005 and the Company made an announcement in respect of the revised caps for the above continuing connected transaction on 8 December 2005 to revise the annual caps for the three years ending 31 December 2005, 2006 and 2007 to RMB8,500,000, RMB9,000,000 and RMB9,500,000 respectively. For the Year, the Company has sold the products to Shandong Neptunus of approximately RMB7,992,000, accounting for approximately 6.9% of the Company's revenue. This figure does not exceed the annual caps granted under the above mentioned waiver.

The Directors also consider the above Service Agreement and the Distribution Agreement signed between the Company and the two subsidiaries of Neptunus Bio-engineering as contracts of significance as defined under Rule 18.26 of the GEM Listing Rules.

Continuing connected transactions undertaken by the Company during the Year are also set out in note 30 to the financial statements.

The independent non-executive Directors of the Company have reviewed and confirmed that the above continuing connected transactions entered into by the Company were:

(i) in the ordinary course of the Company's businesses either on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties;

(ii) in accordance with the terms of the agreements governing the transactions, on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iii) within the prescribed limits as set out in the waiver letters in respect of the connected transactions granted by the Stock Exchange to the Company or the caps as disclosed in the Company's announcement in relation to the continuing connected transactions.

The auditors of the Company have reviewed such continuing connected transactions and have provided a letter to the Company stating that:

(i) the transactions have been approved by the Board;

(ii) the transactions have been entered into in accordance with the terms of the relevant agreements governing the transactions;

(iii) the transactions have not exceeded the relevant prescribed limits as set out in the waiver letters in respect of the connected transactions granted by the Stock Exchange to the Company (where applicable); and

(iv) the transactions were in accordance with the pricing policies of the Company where the transactions involved sale of goods by the Company.

MANAGEMENT CONTRACTS

There was no management and administrative contracts relating to the business as a whole or any principal operations of the Company entered into by the Company or existing for the Year.

COMPLIANCE ADVISER'S INTEREST

Pursuant to the compliance adviser agreement dated 29 August 2005 entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser as required under the GEM Listing Rules for the period from 12 September 2005 to the date on which the Company complies with the Rule 18.03 of the GEM Listing Rules in respect of the Company's financial results for the Year. First Shanghai is paid for acting as the Company's compliance adviser.

As at the date of this report, as notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the securities of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the securities of the Company.

COMPETING INTERESTS

On 21 August 2005, Neptunus Bio-engineering, the controlling shareholder of the Company entered into an agreement with the Company containing undertakings relating to non-competition and preferential rights of investments (the "Non-Competition Undertakings"), pursuant to which Neptunus Bio-engineering had undertaken to the Company and its associates (among others), that as long as the securities of the Company are listed on GEM:

(i) it will not, and will procure its associates not to, whether within or outside the PRC, directly or indirectly (other than those indirectly held as a result of the equity interest in any listed company or its subsidiaries), participate in or operate any business in whatever form, or manufacture any products(the usage of which is the same as or similar to that of the products of the Company) which may constitute direct or indirect competition to the business operated by the Company from time to time; and

(ii) it will not, and will procure its associates not to, hold any interest, whether within or outside the PRC, in any company or organization (directly or indirectly, other than those indirectly held as a result of its equity interest in any listed company or its subsidiaries) when the business of such company or entity will (or may) compete directly or indirectly with the business of the Company.

Pursuant to the Non-Competition Undertakings, at a time when the Non-Competition Undertakings are subsisting, whenever Neptunus Bio-engineering or any its associates enters into any negotiations, within or outside the PRC, in relation to any new investment projects which may compete with the existing and future business of the Company, the Company will also be entitled to the preferential rights to participate in the investments in such new investment projects.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

STAFF RETIREMENT SCHEME

Details of the staff retirement scheme of the Company are set out in note 6 to the financial statements.

AUDITORS

Ernst & Young ("EY") was appointed as the auditors of the Company in 2006. A resolution for the re-appointment of EY as auditors of the Company will be proposed at the forthcoming annual general meeting.

Previously, the PRC auditors of the Company was Shenzhen Dahua Tiancheng Certified Public Accountants ("Dahua"). Dahua tendered its resignation on 13 December 2005 and Moore Stephens Certified Public Accountants ("Moore Stephens") was appointed as the PRC auditors of the Company on 27 June 2006. A resolution for the re-appointment of Moore Stephens as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Zhang Si Min
Chairman

Shenzhen, the PRC

10 April 2007

Corporate Governance Report

The Company strives to attain a high standard of corporate governance. The principles of corporate governance adopted by the Company emphasize a quality board, sound internal control transparency and accountability to all stakeholders.

(A) CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices was effective for accounting periods commencing on or after 1 January 2005. The Company put strong emphasis on the superiority, steadiness and rationality of corporate governance. In order to comply with the requirements of the Code on Corporate Governance Practices, the Company has set up a committee to review its internal management structure. The Directors are of the view that the Company has complied with the requirements set out in Appendix 15 "The Code on Corporate Governance Practices" of the GEM Listing Rules throughout the accounting period covered by the annual report.

(B) CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the Year, the Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, all the Directors have confirmed that they have not conducted any transaction in respect of the Company's securities during the above mentioned period and the Company is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

(C) THE BOARD

The Board is responsible for planning and overseeing the overall development and management of the Company with the objective of enhancing shareholders' value. The Board, led by the Chairman, is responsible for the approval and monitoring of the overall strategies and policies of the Company, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the management. It is also responsible for promoting the success of the Company and its business by directing and supervising the Company's affairs. As at 31 December 2006, the Board comprised nine Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The Board delegates day-to-day operations of the Company to executive Directors, while reserving certain key matters for its approval. The management is responsible for the day-to-day operations of the Company under the guidance of the General Manager. The participation of non-executive Directors in the Board brings independent judgement on issues relating to the Company's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered. One of the independent non-executive Directors has the appropriate professional qualifications or accounting or related financial management expertise. Biographical details of the Directors are set out under the Directors and Senior Management section from page 15 to 17. The independence of an independent non-executive Director may only be established upon confirmation by the Board that such Director does not have any other direct or indirect relationship with the Company.

Details of the attendances of the Board are as follows:

Member of the Board		**Number of meetings attended**
Zhang Si Min	*Chairman, Executive Director*	4/9
Chai Xiang Dong	*Executive Director, General Manager*	9/9
Wang Yan	*Executive Director, deputy General Manager*	9/9
Yu Lin	*Non-executive Director*	9/9
Shao Chun Jie *(Note (a))*	*Non-executive Director*	2/6
Ren De Quan *(Note (b))*	*Non-executive Director*	3/3
Yick Wing Fat, Simon	*Independent non-executive Director*	9/9
Poon Ka Yeung	*Independent non-executive Director*	9/9
Lu Sun	*Independent non-executive Director*	5/9

Notes:

(a) Mr. Shao Chun Jie resigned on 13 September 2006 and only 6 Board meetings were held before he resigned.

(b) Mr. Ren was appointed director on 3 November 2006 and only 3 Board meetings were convened since his appointment.

(D) CHAIRMAN AND GENERAL MANAGER

As the leader of the Board, the Chairman is responsible for the approval and supervision of the overall strategies and policies of the Company, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the management. The General Manager is responsible for the day-to-day operations of the Company. The Articles of the Association of the Company has set out the role and powers of the Chairman and General Manager. The roles of the Chairman and General Manager should be separate and should not be performed by the same individual.

(E) REMUNERATION COMMITTEE

The Remuneration Committee was established on 21 August 2005, comprising of one executive Director and two independent non-executive Directors, namely Mr. Zhang Si Min, Mr. Yick Wing Fat, Simon and Mr. Poon Ka Yeung. The scope of duties of the Remuneration Committee is stated in the Corporate Governance Handbook of the Company.

The principal terms of reference of the Remuneration Committee are prepared in accordance with the GEM Listing Rules and include:

(i) the making of recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(ii) the determination of the remuneration packages of all executive Directors and the senior management of the Company and the making of recommendations to the Board of the remuneration of the non-executive Directors; and

(iii) the review and approval of their performance-based remuneration by reference to corporate goals and objectives of the Company resolved by the Board from time to time.

The Remuneration Committee determined the remuneration of the Directors according to their expertise, knowledge and commitment to the Company with reference to the Company's profitability and the prevailing market conditions. The Remuneration Committee should consult the executive Director and the General Manager about its proposals relating to the remuneration of the Senior Management.

Two meetings of the Remuneration Committee were held during the Year.

Member of the Remuneration Committee		**Number of meetings attended**
Zhang Si Min	*Committee Chairman, Executive Director*	2/2
Yick Wing Fat, Simon	*Independent non-executive Director*	2/2
Poon Ka Yeung	*Independent non-executive Director*	1/2

(F) NOMINATION OF DIRECTORS

No Nomination Committee was established by the Company. Qualified candidates were recommended to the shareholders of the Company for consideration by the Board and the selection criteria for the additional Director were mainly based on the assessment of their professional qualifications and experience.

The non-executive Director nominated by the Board and appointed by the shareholders for the Year included Mr. Ren De Quan.

(G) AUDITORS' REMUNERATION

An amount of approximately RMB1,099,000 (2005: RMB678,000) was charged to the Company's income statement for the Year. There was no significant non-audit service assignment undertaken by the auditors during the Year.

(H) AUDIT COMMITTEE

The Company established an Audit Committee on 21 August 2005 with terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The Audit Committee comprised one non-executive director, namely Ms. Yu Lin and two independent non-executive directors, namely Mr. Yick Wing Fat, Simon and Mr. Poon Ka Yeung. Mr. Yick Wing Fat, Simon was the chairman of the Audit Committee. The scope of duties of the Audit Committee is stated in the Corporate Governance Handbook of the Company.

The primary duties of the Audit Committee are as follows:

(i) to consider, and to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditor;

(ii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standards;

(iii) to discuss with the external auditors before the audit commences, the nature and scope of the audit and reporting obligations, and to ensure co-ordination where more than one audit firm is involved;

(iv) to review and monitor the integrity of the interim and annual financial statements, reports and accounts of the Company, and to review significant financial reporting judgements contained in them, before submission to the Board, focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, etc.

(v) to review the Company's financial controls, internal control and risk management systems;

(vi) to discuss with the management the system of internal control and to ensure the management has discharged its duty in maintaining of have an effective internal control system;

(vii) to review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or system of internal control;

(viii) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(ix) to report to the Board on the matters set out herein and, in particular, the matters required to be performed by the Audit Committee under the Code;

(x) to act as the key representative body for overseeing the Company's relation's with the external auditors; and

(xi) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary).

The Audit Committee held four meetings during this Year to discuss matters relating to the accounting standards and practices adopted by the Company internal control and financial reporting matters, etc., including to review the audited consolidated financial statements and results for the Year.

Member of the Audit Committee		**Number of meetings attended**
Yick Wing Fat, Simon	*Committee Chairman, Independent non-executive Director*	4/4
Poon Ka Yeung	*Independent non-executive Director*	4/4
Yu Lin	*Non-executive Director*	4/4

The Audit Committee has held meetings with the external auditors of the Company to discuss the annual consolidated financial statements and results and the internal control system of the Company. The General Manager and financial manager also attended the meetings to answer questions in respect of the financial results of the Company.

The management of the Company provided all ledgers, analysis and supporting documents as required by the Audit Committee to facilitate their review on the financial statements and control system of the Company to their satisfaction so that they would be able to submit appropriate advice to the Board.

(I) DIRECTORS' RESPONSIBILITY FOR ACCOUNTS

The Directors have confirmed that the preparation of the Company's financial statements is in compliance with the relative regulations and applicable accounting standards. The Directors have also warranted that the Company's financial statements would be distributed in due course.

(J) INTERNAL CONTROL

The Board is responsible for overseeing the system of internal control of the Company and for reviewing its effectiveness. To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Company emphasizes on the importance of a sound internal control system. The Company's system of internal control is designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objectives.

During the Year the management of the Company has appointed an external consultant to review the internal control system with focus on risk management of the Company and has submitted the results of the review and its recommendations and opinions for consideration by the audit committee and the Board. The Audit Committee and the Board have discussed the relevant results of the review and appropriate revisions will be made to address the findings and recommendations therein.

(K) GOING CONCERN

The Group incurred a loss attributable to equity holders of the parent of RMB25,967,000 (2005: RMB160,000) and reported an overall decrease in cash and cash equivalents of RMB26,641,000 for the Year. In addition, as further disclosed in note 29 to the financial statements, as at 31 December 2006, the Group had contracted commitments in respect to future capital expenditure of approximately RMB51,225,000.

In preparing these financial statements, the directors of the Company have given consideration to the impact of the current and anticipated future liquidity of the Group and ability of the Group and the ability of the Group to attain profitable and positive cash flow operations in the immediate and longer base.

In order to strengthen the capital base of the Group and to improve the Group's financial position, liquidity and cash flows in the immediate foreseeable future, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

(a) Subsequent to the balance sheet date, the Group obtained from a third party a new loan of RMB30,000,000, repayable on 26 March 2008.

(b) Subsequent to the balance sheet date, the Group obtained from its immediate holding company a new loan of RMB39,000,000, repayable on 5 April 2009.

In the opinion of the directors of the Company, in light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital for its current requirements and expect the Group to return to a commercially viable concern.

Report of the Supervisory Committee

To: All shareholders

The Supervisory Committee of the Company has exercised its powers seriously to safeguard the interests of the Company and shareholders, complied with the principle of good faith, discharged its duties conscientiously and undertaken tasks in a diligent and proactive manner in accordance with the Company Law of the PRC, the relevant HK laws, regulations and the Company's Articles of Association.

The Supervisory Committee of the Company has reviewed in detail and approved the audited financial statements and this report which will be presented at the annual general meeting. Supervisors of the Company have reviewed prudently the operation and development plans of the Company, and carried out strict and effective supervision as regards whether major decision-making and exact decisions by the management of the Company are in compliance with the laws and regulations of the PRC and the Articles of Association and safeguard the interests of shareholders. Supervisors believe that during the Year, the operating results of the Company were sufficient to reflect its position, and all expenses and costs incurred were reasonable. The profit sharing scheme was in the long-term interest of shareholders and the Company. The provision for statutory surplus reserve and public welfare fund made during the Year has complied with the applicable laws and regulations of the PRC and the Company's Articles of Association.

During the Year, to the best knowledge of the Supervisory Committee, no Directors or other senior management of the Company were found to have abused his authority or have harmed harm the interests of shareholders and employees. To the best knowledge of the Supervisory Committee, no Directors or other senior management of the Company were found to have violated any applicable laws and regulations, the Articles of Association or the relevant regulations of China Securities Regulatory Commission. Supervisors believe that the Directors and other senior management of the Company have strictly observed their respective duties and acted prudently and exercised their powers in good faith in the best interest of the Company.

The Supervisory Committee of the Company is full of confidence in the future of the Company and would like to take this opportunity to express its gratitude to all shareholders, Directors and staff for their strong support to the Supervisory Committee.

By Order of the Board of Directors
Feng Jia Xin
Chairman of Supervisory Committee

Shenzhen, the PRC
22 March 2007

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of Shenzhen Neptunus Interlong Bio-technique Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Shenzhen Neptunus Interlong Bio-technique Company Limited set out on pages 41 to 87, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

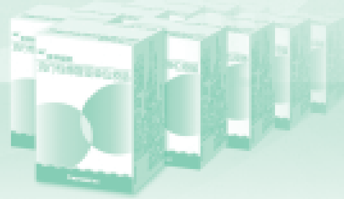
AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2.1 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As further explained in that note, the financial statements of the Group have been prepared on a going concern basis, notwithstanding that the Group incurred a loss attributable to equity holders of the parent of RMB25,967,000 during the year and an overall decrease in cash and cash equivalents of RMB26,641,000 for the year. In addition, as further disclosed in note 29 to the financial statements, as at 31 December 2006, the Group had contracted commitments in respect to future capital expenditure of approximately RMB 51,225,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group and the Company to continue as a going concern.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

10 April 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
REVENUE	5	**20,181**	49,383
Cost of sales		**(7,697)**	(7,708)
Gross profit		**12,484**	41,675
Other income	5	**5,152**	702
Selling and distribution costs		**(11,002)**	(27,749)
Administrative expenses		**(12,514)**	(5,730)
Other expenses		**(13,494)**	(6,788)
Finance costs	7	**(6,564)**	(1,168)
(LOSS)/PROFIT BEFORE TAX	6	**(25,938)**	942
Tax	9	**(29)**	(1,102)
LOSS FOR THE YEAR AND ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**(25,967)**	(160)
DIVIDEND	11	**—**	—
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB cents)			
Basic	12	**(2.74)**	(0.02)

Consolidated Balance Sheet

31 December 2006

	Notes	2006	2005
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**183,468**	87,162
Prepaid land lease payments	14	**8,615**	8,796
Intangible assets	15	**28,820**	9,931
Prepayments for purchase of technical know-how		**6,573**	17,643
Deferred tax assets	22	**225**	254
Total non-current assets		**227,701**	123,786
CURRENT ASSETS			
Inventories	17	**2,322**	3,515
Trade receivables	18	**2,849**	21,399
Prepayments, deposits and other receivables		**1,553**	4,142
Due from related parties	30	**1,933**	3,739
Pledged deposits	19	**4,033**	8,345
Cash and cash equivalents	19	**36,963**	63,604
Total current assets		**49,653**	104,744
CURRENT LIABILITIES			
Trade payables	20	**1,260**	543
Other payables and accruals		**8,284**	6,055
Interest-bearing bank borrowings	21	**3,000**	55,000
Due to related parties	30	**9,000**	11,016
Tax payable		**2,397**	3,024
Total current liabilities		**23,941**	75,638
NET CURRENT ASSETS		**25,712**	29,106
TOTAL ASSETS LESS CURRENT LIABILITIES		**253,413**	152,892
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	21	**127,000**	—
Deferred revenue	23	**3,789**	4,301
Total non-current liabilities		**130,789**	4,301
Net assets		**122,624**	148,591
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	24	**94,667**	94,667
Reserves	25(a)	**27,957**	53,924
Total equity		**122,624**	148,591

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Issued share capital RMB'000 (Note 24)	Share premium account RMB'000	Statutory surplus reserve fund RMB'000 (Note 25)	Statutory public welfare fund RMB'000 (Note 25)	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2005	71,000	—	1,940	970	9,251	83,161
Shares issued on placing	23,667	57,750	—	—	—	81,417
Share issue expenses	—	(15,827)	—	—	—	(15,827)
Loss for the year	—	—	—	—	(160)	(160)
Appropriation to the statutory surplus reserve fund	—	—	280	—	(280)	—
Appropriation to the statutory public welfare fund	—	—	—	140	(140)	—
At 31 December 2005	94,667	41,923*	2,220*	1,110*	8,671*	148,591
At 1 January 2006	94,667	41,923	2,220	1,110	8,671	148,591
Loss for the year	—	—	—	—	(25,967)	(25,967)
At 31 December 2006	**94,667**	**41,923***	**2,220***	**1,110***	**(17,296)***	**122,624**

* *These reserve accounts comprise the consolidated reserves of RMB27,957,000 (2005: RMB53,924,000) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(25,938)**	942
Adjustments for:			
Interest income	5	**(541)**	(266)
Finance costs	7	**6,564**	1,168
Depreciation	6	**3,821**	2,540
Amortisation of intangible assets	6	**2,185**	1,062
Impairment of intangible assets	6	**1,403**	—
Recognition of prepaid land lease payments	6	**181**	60
Loss/(gain) on disposal of items of property, plant and equipment	6	**453**	(16)
		(11,872)	5,490
Decrease in inventories		**1,193**	142
Decrease/(increase) in trade receivables		**18,550**	(1,109)
Decrease/(increase) in prepayments, deposits and other receivables		**2,589**	(452)
Decrease/(increase) in amounts due from related parties		**1,806**	(804)
Increase in trade payables		**717**	356
Increase in other payables and accruals		**2,229**	2,568
Decrease in amounts due to related parties		**(2,016)**	(533)
(Decrease)/increase in deferred revenue		**(512)**	1,301
Cash generated from operations		**12,684**	6,959
Income tax paid		**(627)**	(274)
Interest paid		**(6,564)**	(1,168)
Net cash inflow from operating activities		**5,493**	5,517
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(100,580)**	(65,408)
Additions to technical know-how	15	**(22,309)**	(2,144)
Additions to other intangible assets	15	**(168)**	—
Decrease/(increase) of prepayments for purchase of technical know-how		**11,070**	(3,000)
Prepaid land lease payments		**—**	(9,037)
Proceeds from disposal of items of property, plant and equipment		**—**	150
Interest received		**541**	266
Decrease/(increase) in pledged deposits	19	**4,312**	(8,345)
Net cash outflow from investing activities		**(107,134)**	(87,518)

Consolidated Cash Flow Statement *(Continued)*

Year ended 31 December 2006

	Notes	**2006**	2005
		RMB'000	RMB'000
Net cash outflow from investing activities		**(107,134)**	(87,518)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	81,417
New bank loans		**155,000**	55,000
Repayment of bank loans		**(80,000)**	(20,000)
Loan from a shareholder		**—**	9,000
Share issue expenses		**—**	(12,417)
Net cash inflow from financing activities		**75,000**	113,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(26,641)**	30,999
Cash and cash equivalents at beginning of year		**63,604**	32,605
CASH AND CASH EQUIVALENTS AT END OF YEAR		**36,963**	63,604
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**36,963**	63,604

Balance Sheet

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**183,468**	87,162
Prepaid land lease payments	14	**8,615**	8,796
Intangible assets	15	**28,820**	9,931
Investment in a subsidiary	16	**1,040**	—
Prepayments for purchase of technical know-how		**6,573**	17,643
Deferred tax assets	22	**225**	254
Total non-current assets		**228,741**	123,786
CURRENT ASSETS			
Inventories	17	**2,322**	3,515
Trade receivables	18	**2,849**	21,399
Prepayments, deposits and other receivables		**1,553**	4,142
Due from related parties	30	**1,933**	3,739
Pledged deposits	19	**4,033**	8,345
Cash and cash equivalents	19	**36,771**	63,604
Total current assets		**49,461**	104,744
CURRENT LIABILITIES			
Trade payables	20	**1,260**	543
Other payables and accruals		**8,284**	6,055
Interest-bearing bank borrowings	21	**3,000**	55,000
Due to related parties	30	**9,000**	11,016
Due to a subsidiary		**716**	—
Tax payable		**2,397**	3,024
Total current liabilities		**24,657**	75,638
NET CURRENT ASSETS		**24,804**	29,106
TOTAL ASSETS LESS CURRENT LIABILITIES		**253,545**	152,892
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	21	**127,000**	—
Deferred revenue	23	**3,789**	4,301
Total non-current liabilities		**130,789**	4,301
Net assets		**122,756**	148,591
EQUITY			
Issued capital	24	**94,667**	94,667
Reserves	25(b)	**28,089**	53,924
Total equity		**122,756**	148,591

1. CORPORATE INFORMATION

Shenzhen Neptunus Interlong Bio-technique Company Limited (the "Company") is a joint stock limited company registered in the People's Republic of China (the "PRC"). The registered office of the Company is located at 24th Floor, Block A, Neptunus Building, Nanyou Avenue, Nanshan District, Shenzhen, Guangdong Province, the PRC.

During the year, the Company and its subsidiary, Ascendent Bio-Technology Company Limited, (collectively referred as the "Group") were principally engaged in the research and development of modern biological technology, and the production and sale of cytokines category protein therapeutic drugs and the production of vaccines for infectious diseases.

In the opinion of the directors, the ultimate parent and immediate parent of the Company are Neptunus Group and Neptunus Bio-engineering respectively, which are incorporated in the PRC.

2.1 BASIS OF PRESENTATION

The Group incurred a loss attributable to equity holders of the parent of RMB25,967,000 (2005: RMB160,000) and reported an overall decrease in cash and cash equivalents of RMB26,641,000 for the year. In addition, as further disclosed in note 29 to the financial statements, as at 31 December 2006, the Group had contracted commitments in respect to future capital expenditure of approximately RMB51,225,000.

In preparing these financial statements, the directors of the Company have given consideration to the impact of the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and positive cash flow operations in the immediate and longer term.

In order to strengthen the capital base of the Group and to improve the Group's financial position, liquidity and cash flows in the immediate foreseeable future, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

(a) Subsequent to the balance sheet date, the Group obtained from a third party a new loan of RMB30,000,000, repayable on 26 March 2008.

(b) Subsequent to the balance sheet date, the Group obtained from its immediate parent a new loan of RMB39,000,000, repayable on 5 April 2009.

In the opinion of the directors of the Company, in light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital for its current requirements and expect the Group to return to a commercially viable concern. Accordingly, the directors of the Company consider that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

2.2 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary for the year. The result of subsidiary is consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of HKASs 21, 27, 39, HKFRS 4 and HK(IFRIC)-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's financial statements.

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangement

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)- Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiary

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

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

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, goodwill, deferred tax assets, financial assets and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.8%
Plant and machinery	9%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowing funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets other than goodwill

The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Technical know-how

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

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Trademark

The registered trademark is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets other than goodwill (continued)

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding 10 years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date that is the date that the Group commits to purchase the asset or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

– in respect of taxable temporary differences associated with an investment in a subsidiary, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

– in respect of deductible temporary differences associated with an investment in a subsidiary, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Government grants

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

(c) from government subsidies, when they are received or when there is reasonable assurance that the subsidies will be received and on the basis set out under the accounting policy headed "Government grants" above.

Retirement benefits

The Group participates in the central pension scheme (the "CPS") operated by the local government authority for all of its employees. The Group is required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contribution under the CPS. Contributions under the CPS are charged to the income statement as they become payable in accordance with the rules of the CPS.

Borrowing costs

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

Other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Capitalised development expenditure

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. In the development phase of an internal project, the Group has to exercise judgement to identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. To demonstrate how an intangible asset will generate probable future economic benefits, the Group assesses the future economic benefits to be received from the asset. If the asset will generate economic benefits only in combination with other assets, the Group applies the concept of cash-generating units.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year is discussed below.

4. SEGMENT INFORMATION

The Group conducts its business within one business segment, i.e., the business of manufacturing and selling medicine products. Accordingly, no business segment information is presented. The Group also operates within one geographical segment in the PRC. All segment assets, liabilities and capital expenditure are located in the PRC and therefore no geographical segments are presented, except for the segment revenue. Segment revenue is presented based on the geographical location of customers.

An analysis by geographical segment, as determined by the location of the Group's operations, is as follows:

year ended 31 December 2006	**Mainland China RMB'000**	**Pakistan RMB'000**	**Others RMB'000**	**Total RMB'000**
Segment revenue:				
Sales to external customers	**16,972**	**2,416**	**793**	**20,181**
Cost of sales	**(6,389)**	**(993)**	**(315)**	**(7,697)**
Gross profit	**10,583**	**1,423**	**478**	**12,484**
year ended 31 December 2005				
Segment revenue:				
Sales to external customers	47,669	1,613	101	49,383
Cost of sales	(7,203)	(477)	(28)	(7,708)
Gross profit	40,466	1,136	73	41,675

5. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	2006	2005
	RMB'000	RMB'000
Revenue		
Sale of medicines	**20,181**	49,383
Other income		
Bank interest income	**541**	266
Subsidy income	**4,077**	420
Others	**534**	16
	5,152	702

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2006 RMB'000	2005 RMB'000
Cost of inventories sold		**5,331**	6,446
Recognition of prepaid land lease payments*	14	**181**	60
Depreciation	13	**3,821**	2,540
Amortisation of intangible assets*	15	**2,185**	1,062
Impairment of intangible assets**	15	**1,403**	—
Research and development costs**		**6,861**	4,596
Minimum lease payments under operating leases in respect of land and buildings		**896**	1,179
Auditors' remuneration		**1,099**	678
Employee benefits expense (including directors' remuneration *(note 8)*):			
Salaries and wages		**10,108**	11,136
Pension scheme contributions		**702**	457
		10,810	11,593
Foreign exchange differences, net		**352**	155
Impairment of trade receivables **		**768**	2,192
Write down to net realisable value of inventories*		**1,373**	—
Write-off of obsolete inventories*		**466**	140
Bank interest income		**(541)**	(266)
Loss/(gain) on disposal of items of property, plant and equipment		**453**	(16)

* *These amounts are included in "Cost of sales" on the face of the consolidated income statement.*

** *These amounts are included in "Other expenses" on the face of the consolidated income statement.*

7. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank loans wholly repayable within five years	**4,568**	1,140
Interest on bank loans wholly repayable over five years	**2,443**	—
Others	**20**	28
Less: Interest capitalised	**(467)**	—
	6,564	1,168

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

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

	2006 RMB'000	2005 RMB'000
Fees	**732**	264
Other emoluments:		
Salaries, allowances and benefits in kind	**875**	875
Pension scheme contributions	**18**	17
	1,625	1,156

(a) Independent non-executive directors

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

	2006 RMB'000	2005 RMB'000
Mr. Lu Sun	**106**	39
Mr. Yick Wing Fat, Simon	**212**	77
Mr. Poon Ka Yeung	**106**	39
	424	155

All the independent non-executive directors have been appointed since 21 August 2005. There were no other emoluments payable to the independent non-executive directors during the year.

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2006				
Executive directors:				
Mr. Zhang Si Min	**100**	**—**	**—**	**100**
Mr. Chai Xiang Dong	**—**	**500**	**10**	**510**
Ms. Wang Yan	**—**	**375**	**8**	**383**
	100	**875**	**18**	**993**
Non-executive directors:				
Mr. Shao Chun Jie	**75**	**—**	**—**	**75**
Ms. Yu Lin	**100**	**—**	**—**	**100**
Mr. Ren De Quan	**33**	**—**	**—**	**33**
	208	**—**	**—**	**208**
	308	**875**	**18**	**1,201**
2005				
Executive directors:				
Mr. Zhang Si Min	37	—	—	37
Mr. Chai Xiang Dong	—	500	9	509
Ms. Wang Yan	—	375	8	383
	37	875	17	929
Non-executive directors:				
Mr. Shao Chun Jie	36	—	—	36
Ms. Yu Lin	36	—	—	36
	72	—	—	72
	109	875	17	1,001

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

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors and non-executive directors (continued)

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out above.

Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	2006 **RMB'000**	2005 RMB'000
Salaries, allowances and benefits in kind	**975**	900
Pension scheme contributions	**25**	21
	1,000	921

The remuneration of the three (2005: three) non-directors, highest paid employees fell within the band of Nil to RMB1,000,000.

9. TAX

	2006 **RMB'000**	2005 RMB'000
The Group:		
Current - Mainland China	**—**	1,279
Deferred *(note 22)*	**29**	(177)
Total tax charge for the year	**29**	1,102

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the year.

9. TAX (continued)

The Company is located in the Shenzhen Special Economic Zone and is therefore subject to a corporate income tax rate of 15%. In accordance with the relevant income tax laws and regulations in the PRC, the Company was exempt from corporate income tax for two years commencing from its first year with assessable profits after deducting the tax losses brought forward, and was entitled to a 50% tax exemption for the next three years.

As a high technology enterprise, the Company obtained the approval in 2004 for a 50% exemption from corporate income tax for three more years until the year ending 31 December 2007. Accordingly, the Company was entitled to a 50% exemption from income tax for the years ended 31 December 2005 and 31 December 2006.

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

The Group

	2006		2005	
	RMB'000	**%**	RMB'000	%
(Loss)/profit before tax	**(25,938)**		942	
Tax at the PRC statutory tax rate	**(8,560)**	**33.0**	311	33.0
Lower tax rate for specific provinces or local authority	**6,581**	**(25.4)**	(240)	(25.5)
Income not subject to tax	**(40)**	**0.2**	(7)	(0.7)
Expenses not deductible for tax	**478**	**(1.9)**	1,215	129.0
Tax losses not recognised	**1,541**	**(5.9)**	—	—
Tax charge at the Group's effective rate	**—**	**—**	1,279	135.8

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to the equity holders of the parent for the year includes a loss of RMB25,835,000 (2005: RMB160,000) which has been dealt with in the financial statements of the Company (note25(b)).

11. DIVIDEND

No dividend was paid or declared by the Group during the year (2005: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of RMB25,967,000 (2005: RMB160,000) and the weighted average number of 946,670,000 ordinary shares (2005: 781,974,000 ordinary shares) in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2006 and 2005 have not been disclosed as no diluting events existed during these years.

13. PROPERTY, PLANT AND EQUIPMENT

The Group and the Company	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	—	18,902	1,212	5,651	71,529	97,294
Accumulated depreciation	—	(6,872)	(441)	(2,819)	—	(10,132)
Net carrying amount	—	12,030	771	2,832	71,529	87,162
At 1 January 2006, net of accumulated depreciation	—	12,030	771	2,832	71,529	87,162
Additions	—	1,189	1,003	267	98,121	100,580
Transfers	9,105	15,249	—	3,359	(27,713)	—
Disposals	—	(241)	—	(212)	—	(453)
Depreciation provided during the year	(84)	(2,685)	(327)	(725)	—	(3,821)
At 31 December 2006, net of accumulated depreciation	9,021	25,542	1,447	5,521	141,937	183,468
At 31 December 2006:						
Cost	9,105	33,300	2,215	8,384	141,937	194,941
Accumulated depreciation	(84)	(7,758)	(768)	(2,863)	—	(11,473)
Net carrying amount	9,021	25,542	1,447	5,521	141,937	183,468

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group and the Company	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2005						
At 1 January 2005:						
Cost	—	17,489	1,277	4,689	8,750	32,205
Accumulated depreciation	—	(5,351)	(397)	(2,029)	—	(7,777)
Net carrying amount	—	12,138	880	2,660	8,750	24,428
At 1 January 2005, net of accumulated depreciation	—	12,138	880	2,660	8,750	24,428
Additions	—	1,413	254	962	62,779	65,408
Disposals	—	—	(134)	—	—	(134)
Depreciation provided during the year	—	(1,521)	(229)	(790)	—	(2,540)
At 31 December 2005, net of accumulated depreciation	—	12,030	771	2,832	71,529	87,162
At 31 December 2005:						
Cost	—	18,902	1,212	5,651	71,529	97,294
Accumulated depreciation	—	(6,872)	(441)	(2,819)	—	(10,132)
Net carrying amount	—	12,030	771	2,832	71,529	87,162

As at 31 December 2006, certain of the Group's buildings and construction in progress with an aggregate carrying value of approximately RMB152,141,000 (2005: RMB52,420,000) were pledged to secure general banking facility granted to the Group (note 21).

14. PREPAID LAND LEASE PAYMENTS

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Carrying amount at 1 January	**8,977**	—
Additions during the year	**—**	9,037
Recognised during the year	**(181)**	(60)
Carrying amount at 31 December	**8,796**	8,977
Current portion included in prepayments, deposits and other receivables	**(181)**	(181)
Non-current portion	**8,615**	8,796

This piece of land is situated in Mainland China and is held under a medium term lease, which has a term of 50 years commencing from 18 August 2005.

As at 31 December 2006, the Group's land was pledged to secure general banking facilities granted to the Group (note 21).

15. INTANGIBLE ASSETS

The Group and the Company	Technical know-how RMB'000	Computer software RMB'000	Trademark RMB'000	Total RMB'000
31 December 2006				
Cost at 1 January 2006, net of accumulated amortisation	**9,821**	**47**	**63**	**9,931**
Additions	**22,309**	**168**	**—**	**22,477**
Amortisation provided during the year	**(2,140)**	**(38)**	**(7)**	**(2,185)**
Impairment during the year	**(1,403)**	**—**	**—**	**(1,403)**
At 31 December 2006	**28,587**	**177**	**56**	**28,820**
At 31 December 2006:				
Cost	**36,071**	**239**	**75**	**36,385**
Accumulated amortisation and impairment	**(7,484)**	**(62)**	**(19)**	**(7,565)**
Net carrying amount	**28,587**	**177**	**56**	**28,820**
31 December 2005				
At 1 January 2005:				
Cost	11,618	71	75	11,764
Accumulated amortisation	(2,901)	(10)	(4)	(2,915)
Net carrying amount	8,717	61	71	8,849
Cost at 1 January 2005, net of accumulated amortisation	8,717	61	71	8,849
Additions	2,144	—	—	2,144
Amortisation provided during the year	(1,040)	(14)	(8)	(1,062)
At 31 December 2005	9,821	47	63	9,931
At 31 December 2005 and at 1 January 2006:				
Cost	13,762	71	75	13,908
Accumulated amortisation	(3,941)	(24)	(12)	(3,977)
Net carrying amount	9,821	47	63	9,931

16. INVESTMENT IN A SUBSIDIARY

	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**1,040**	—

Particulars of the subsidiary are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued ordinary/ registered share capital**	**Percentage of equity attributable to the Company Direct**	**Principal activities**
Ascendent Bio-Technology Company Limited	Hong Kong	HK$10,000	100	Dormant

17. INVENTORIES

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Raw materials	**576**	814
Work in progress	**1,382**	1,268
Finished goods	**364**	1,433
	2,322	3,515

18. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 1 to 270 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Within 3 months	**580**	9,733
4 to 6 months	**1,059**	7,801
7 to 12 months	**2,144**	4,378
Over 1 year	**8,570**	8,361
	12,353	30,273
Provision for impairment of trade receivables	**(9,504)**	(8,874)
	2,849	21,399

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

The Group

	2006 RMB'000	2005 RMB'000
Cash and bank balances	**36,963**	63,604
Pledged deposits	**4,033**	8,345
	40,996	71,949
Less: Pledged for issuance of guarantee letters for constructions	**(4,033)**	(8,345)
Cash and cash equivalents	**36,963**	63,604

The Company

	2006 RMB'000	2005 RMB'000
Cash and bank balances	**36,771**	63,604
Pledged deposits	**4,033**	8,345
	40,804	71,949
Less: Pledged for issuance of guarantee letters for constructions	**(4,033)**	(8,345)
Cash and cash equivalents	**36,771**	63,604

At the balance sheet date, the cash and bank balances of the Group and the Company denominated in RMB amounted to approximately RMB36,741,000 (2005: RMB49,202,000). The RMB is not freely convertible into other currencies. However, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

20. TRADE PAYABLES

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

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Within 3 months	**570**	215
4 to 6 months	**337**	71
7 to 12 months	**218**	159
Over 1 year	**135**	98
	1,260	543

21. INTEREST-BEARING BANK BORROWINGS

The Group and the Company	**2006**			2005		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current:						
Bank loan – unsecured	**—**	**—**	**—**	6.138%	2006	20,000
Bank loan – secured	**—**	**—**	**—**	5.58%	2006	35,000
Current portion of long term bank loan – secured	**6.39%**	**2007**	**3,000**	—	—	—
Non-current:						
Bank loan – secured	**6.39%**	**2014**	**127,000**	—	—	—
			130,000			55,000

21. INTEREST-BEARING BANK BORROWINGS (continued)

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**3,000**	55,000
In the second year	**7,000**	—
In the third to fifth years, inclusive	**58,000**	—
Beyond five years	**62,000**	—
	130,000	55,000

The Group's banking facility amounting to RMB130,000,000 was secured by:

(i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had an aggregate carrying value at the balance sheet date of approximately RMB8,796,000 (2005: RMB8,977,000);

(ii) mortgages over the Group's buildings, equipments and construction in progress, which had an aggregate carrying value at the balance sheet date of approximately RMB152,141,000 (2005: RMB52,420,000);

(iii) the pledge of 639,000,000 domestic shares in the Company held by Neptunus Bio-engineering (note 30(xiii));

(iv) the pledge of 47,671,000 domestic shares in the Company held by Mr. Chai Xiang Dong, the Company's management shareholder (note 30(xiii)); and

(v) the pledge of the right to revenue derived from subunit vaccine of influenza virus.

In addition, the Company's controlling shareholder has guaranteed the Group's bank loan of RMB130,000,000 (2005: RMB80,000,000) as at the balance sheet date (note 30(xii)).

22. DEFERRED TAX ASSETS

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Balance at beginning of year	**254**	77
(Credit)/debit for the year *(note 9)*	**(29)**	177
	225	254

The Group has tax losses arising in Mainland China of RMB19,961,000 (2005: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

23. DEFERRED REVENUE

The Group and the Company

In June 2003, a subsidy of RMB500,000 was jointly granted by the Shenzhen Bureau of Science and Technology and the Shenzhen Bureau of Finance for the acquisition of plant and machinery in relation to the production of interferon spray, of which RMB50,000 had been released to the income statement to match the depreciation charged for the year of the plant and machinery acquired. In July 2003, a subsidy of RMB500,000 was jointly granted by the Shenzhen Bureau of Science and Technology and the Shenzhen Bureau of Finance for financing the research and development of interferon ointment. These subsidies are not required to be repaid to the Shenzhen Bureau of Science and Technology and the Shenzhen Bureau of Finance only if the projects are subsequently approved and certified by the Shenzhen Bureau of Science and Technology and the Shenzhen Bureau of Finance upon their completion.

In December 2004, a subsidy of RMB2 million was jointly granted by the Shenzhen Bureau of Science, Technology and Information and the Shenzhen Development and Reform Bureau as a science and technology fund. A further subsidy of RMB1 million for the same purpose was received by the Group in July 2005. These subsidies are not required to be repaid and an amount of RMB229,000 had been released to the income statement to match the depreciation charged for the year of the plant and machinery acquired.

In December 2005, a subsidy of RMB400,000 was granted by the Shenzhen Bureau of Finance for financing the research and development of interferon vaginal effervescent tablet. The subsidy is not required to be repaid to the Shenzhen Bureau of Finance only if the project is subsequently approved and certified by the Shenzhen Bureau of Science, Technology and Information upon its completion. An amount of RMB233,000 had been released to the income statement to match the depreciation charged for the year of the plant and machinery acquired.

24. SHARE CAPITAL

Shares	2006 RMB'000	2005 RMB'000
Authorised, issued and fully paid:		
946,670,000 (2005: 946,670,000) ordinary shares of RMB0.10 each	**94,667**	94,667

25. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 43 of the financial statements.

(b) The Company

	Share premium account RMB'000	Statutory funds RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2005	—	2,910	9,251	12,161
Shares issued on placing	57,750	—	—	57,750
Share issue expenses	(15,827)	—	—	(15,827)
Loss for the year	—	—	(160)	(160)
Transfer from retained profits	—	420	(420)	—
At 31 December 2005	41,923	3,330	8,671	53,924
Loss for the year	—	—	(25,835)	(25,835)
At 31 December 2006	**41,923**	**3,330**	**(17,164)**	**28,089**

The Company is required to follow the laws and regulations of the PRC and the Company's articles of association to provide for certain statutory funds, namely, the statutory surplus reserve fund and the statutory public welfare fund which are appropriated from net profit after tax but before dividend distribution.

Statutory surplus reserve fund

The Company is required to allocate at least 10% of its net profit per the PRC audited statutory financial statements to the statutory surplus reserve fund until the balance of such reserve has reached 50% of the Company's issued share capital. Any further appropriation is optional. The statutory surplus reserve fund shall only be used for making up losses or for capitalisation into share capital, provided that the remaining balance is not less than 25% of the issued share capital after such capitalisation.

25. RESERVES (continued)

(b) The Company (continued)

Statutory public welfare fund

The Company is required to appropriate, at the discretion of its board of directors, 5% to 10% of its net profit per the PRC audited statutory financial statements to the statutory public welfare fund. The statutory public welfare fund can only be utilised for capital items for employee collective welfare, such as dormitories and other facilities for the Company's employees, and can not be used to pay for staff welfare expenses. The title to these capital items will remain with the Company.

When the Company's statutory surplus reserve fund is not sufficient to compensate for its previous years' losses, its current year's net profit shall be used to make good the losses before allocations are set aside to the statutory surplus reserve fund or the statutory public welfare fund.

26. CONTINGENT LIABILITY

At the balance sheet date, neither the Group nor the Company had any significant contingent liability.

27. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group are set out in note 21 to the financial statements.

28. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its factory premises under operating lease arrangements. Leases for the factory premises are negotiated for terms of one and two years.

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006	2005
	RMB'000	RMB'000
Within one year	**748**	577
In the second to fifth years, inclusive	**125**	—
	873	577

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group and the Company had the following capital commitments at the balance sheet date:

	2006	2005
	RMB'000	RMB'000
Contracted, but not provided for:		
Technical know-how, net of deposits	**11,918**	17,507
Property, plant and equipment	**30,860**	50,966
Land lease payments, net of deposits*	**5,500**	5,500
Others	**209**	—
	48,487	73,973
Authorised, but not contracted for:		
Plant and equipment	**2,738**	51,150
	51,225	125,123

* *The Group and the Company entered into a contract with Baoan Development Company on 17 September 2004 (with a supplemental agreement dated on the same date), pursuant to which Baoan Development Company agreed to provide to the Company basic facilities for a piece of land in Guangming Hi-Tech Industrial Park of Shenzhen, which has been acquired by the Company (note 14), and assist the Group and the Company in the approval and registration procedures of the Group and the Company's development project being carried out on the land. Pursuant to the contract, the park development integrated fees (the "PDI fees") is RMB6,000,000 and a deposit of RMB500,000 has been paid as of the balance sheet date. The final amount of the PDI fees is subject to a waiver to be granted by the People's Government of Baoan District.*

30. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions and balances disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

Name of related parties	Nature of transactions	*Notes*	**2006 RMB'000**	2005 RMB'000
Neptunus Bio-engineering	Loan from the shareholder	(i)	**10,000**	9,000
Neptunus Pharmaceutical	Rental of factory premises	(ii) (iii)	**120**	120
	Recharge on the use of plant and machinery	(ii) (iv)	**109**	532
	Recharge of direct labour costs	(ii) (v)	**152**	405
	Recharge of water, electricity and fuel costs	(ii) (vi)	**551**	851
	Management fees	(ii) (vii)	**10**	27
	Property management fees	(ii) (viii)	**60**	53
Shenzhen Nepstar Pharmaceutical Company Limited	Sale of interferon and interleukin	(ii) (ix)	**111**	148
Shandong Neptunus	Sale of interferon and interleukin	(ii) (ix)	**8,042**	5,141
Neptunus Group	Recharge of telephone system costs	(x)	**6**	15
Tongai Pharmaceutical	Rental of office and factory premises	(ii) (xi)	**34**	198

30. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) On 17 August 2005, the Group obtained an interest-free loan (the "NB Loan") in the amount of RMB9,000,000 from Neptunus Bio-engineering, the controlling shareholder of the Group. No written agreement has been entered into between the Group and Neptunus Bio-engineering in respect of the NB Loan.

In September 2006, the Group obtained another NB Loan in the amount of RMB10,000,000 from Neptunus Bio-engineering which was repaid in December 2006. No written agreement has been entered into between the Group and Neptunus Bio-engineering in respect of the NB Loan.

The outstanding NB Loan is unsecured and has no fixed term of repayment.

(ii) The ultimate parent of these related parties is also the ultimate parent of the Group. The director, Mr. Zhang Si Min, of the Group is also the director of these related parties, except for Shandong Neptunus.

(iii) The rental of factory premises was charged at pre-agreed rates with reference to market prices.

(iv) The recharge on the use of plant and machinery was based on pre-agreed rates with reference to the useful lives of the plant and machinery and the estimated utilisation rates of the Group on those assets.

(v) The recharge of direct labour costs was based on pre-agreed rates with reference to market rates and the number of labour hours incurred for the production.

(vi) The recharge of water, electricity and fuel costs was based on pre-agreed rates with reference to the Group's production activities.

(vii) The management fees were charged at pre-agreed rates.

(viii) The property management fees were charged at pre-agreed rates.

(ix) The Group sold interferon and interleukin to these related parties during the year. The sales were conducted in the normal course of business on the same terms as those charged to and contracted with other third party customers.

On 21 August 2005, the Group and Shandong Neptunus entered into a distributorship agreement (the "Distributorship Agreement"), pursuant to which Shandong Neptunus was appointed as the non-exclusive distributor of the products in Shandong Province of the PRC commencing from 21 August 2005. The Distributorship Agreement will expire on 31 December 2007. The Group's sales to Shandong Neptunus under the Distributorship Agreement will not exceed RMB8,500,000, RMB9,000,000 and RMB9,500,000 for the three years ended 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

(x) The recharge of telephone system costs was based on actual costs incurred.

(xi) The rental of office and factory premises was charged at pre-agreed rates with reference to market prices.

From the year 2002, the Group and Tongai Pharmaceutical entered into a series of lease contracts, pursuant to which Tongai Pharmaceutical agreed to lease a property to the Company for office use. The rental of RMB533,000 attributable to the year 2002 to year 2006 was waived by Tongai Pharmaceutical subject to a waiver agreement dated 30 January 2007.

30. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

(xii) During the year, Neptunus Bio-engineering provided a corporate guarantee to the extent of RMB130,000,000 in relation to banking facility granted to the Group (note 21).

(xiii) During the year, Neptunus Bio-engineering pledged its 639,000,000 domestic shares in the Company and Mr. Chai Xiang Dong, the management shareholder of the Company, pledged his 47,671,000 domestic shares in the Company to secure the Group's bank loan of RMB130,000,000 (2005: Nil) (note 21).

(b) Outstanding balances with related parties:

As disclosed in the consolidated balance sheet, particulars of the amounts due from related parties are as follows:

	2006	2005
	RMB'000	RMB'000
Neptunus Pharmaceutical	**1,535**	—
Nepstar Pharmaceutical	**12**	—
Shandong Neptunus	**386**	3,739
	1,933	3,739

Particulars of the amounts due to related parties are as follows:

	2006	2005
	RMB'000	RMB'000
Neptunus Pharmaceutical	**—**	2,016
Neptunus Bio-engineering	**9,000**	9,000
	9,000	11,016

The balances with these related companies are unsecured, interest-free and have no fixed terms of repayment.

30. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group:

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

In the opinion of the directors, except for transactions (i), (xii) and (xiii) all of the above related party transactions were carried out on normal commercial terms in the ordinary course of business.

The related party transactions in respect of items (i), (iii), (iv), (v), (vi), (vii), (viii), (ix), (x), (xi), (xii), (xiii) and (c) also constitute connected transactions or continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are business risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in Mainland China and accordingly, it is subject to certain considerations and significant risks. These include risks associated with, inter alia, the political, economic and legal environments.

Foreign currency risk

The Group operates in Mainland China and its principal activities are conducted in RMB. Therefore, the Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments as indicated on the balance sheet.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

32. POST BALANCE SHEET EVENT

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 April 2007.

THREE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
RESULTS			
REVENUE	**20,181**	49,383	48,248
Cost of sales	**(7,697)**	(7,708)	(7,959)
Gross profit	**12,484**	41,675	40,289
Other income	**5,152**	702	2,240
Selling and distribution costs	**(11,002)**	(27,749)	(23,704)
Administrative expenses	**(12,514)**	(5,730)	(3,178)
Other expenses	**(13,494)**	(6,788)	(4,338)
Finance costs	**(6,564)**	(1,168)	(1,088)
(LOSS)/PROFIT BEFORE TAX	**(25,938)**	942	10,221
Tax	**(29)**	(1,102)	(1,643)
(LOSS)/PROFIT FOR THE YEAR AND ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**(25,967)**	(160)	8,578
ASSETS AND LIABILITIES			
TOTAL ASSETS	**277,354**	228,530	114,403
TOTAL LIABILITIES	**(154,730)**	(79,939)	(31,242)
	122,624	148,591	83,161