



深圳市海王英特龍生物技術股份有限公司
SHENZHEN NEPTUNUS INTERLONG BIO-TECHNIQUE COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8329)

2007
Interim 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.



FINANCIAL HIGHLIGHTS (UNAUDITED)

- For the six months ended 30 June 2007 (the "Relevant Period"), the revenue of the Company together with its subsidiary, Ascendent Bio-Technology Company Limited, (collectively the "Group") was approximately RMB7,301,000, representing a decrease of approximately 39.81% from that of the same period last year.
- During the Relevant Period, the loss attributable to equity shareholders of the Group was approximately RMB12,999,000 as compared to the loss attributable to equity holders of approximately RMB14,469,000 in the same period last year.
- During the Relevant Period, the loss per share of the Group was approximately RMB1.37 cents.
- The Directors do not recommend the payment of any dividend for the Relevant Period.



INTERIM RESULTS (UNAUDITED)

The condensed interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2007

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 RMB'000	2007 (Unaudited) RMB'000	2006 RMB'000
REVENUE	5	3,565	4,746	7,301	12,129
Cost of sales		(1,263)	(768)	(2,392)	(2,132)
Gross profit		2,302	3,978	4,909	9,997
Other income	5	423	491	496	675
Selling and distribution costs		(852)	(3,599)	(2,174)	(8,783)
Administrative expenses		(2,827)	(2,242)	(5,919)	(4,869)
Other operating expenses		(4,902)	(9,273)	(7,600)	(10,005)
LOSS FROM OPERATING ACTIVITIES	6	(5,856)	(10,645)	(10,288)	(12,985)
Finance costs	7	(583)	(1,377)	(2,711)	(1,920)
LOSS BEFORE TAX		(6,439)	(12,022)	(12,999)	(14,905)
Tax	8	—	392	—	436
LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		(6,439)	(11,630)	(12,999)	(14,469)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY (RMB CENTS)					
Basic	10	(0.68)	(1.23)	(1.37)	(1.53)



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Note	As at 30 June 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
NON-CURRENT ASSETS			
Properties, plant and equipment	11	205,494	183,468
Prepaid land lease payments		8,525	8,615
Intangible assets		27,924	28,820
Prepayments for purchase of technical know-how		6,573	6,573
Deferred tax assets		225	225
Total non-current assets		<u>248,741</u>	<u>227,701</u>
CURRENT ASSETS			
Inventories		2,787	2,322
Trade receivables	12	2,515	2,849
Prepayments, deposits and other receivables		3,237	1,553
Due from related parties		1,489	1,933
Pledged deposits		3,806	4,033
Cash and cash equivalents		68,140	36,963
Total current assets		<u>81,974</u>	<u>49,653</u>
CURRENT LIABILITIES			
Trade payables	13	721	1,260
Other payables and accruals		6,439	8,284
Interest-bearing bank borrowings	14	36,000	3,000
Due to related parties		9,000	9,000
Tax payable		2,397	2,397
Total current liabilities		<u>54,557</u>	<u>23,941</u>
NET CURRENT ASSETS		<u>27,417</u>	<u>25,712</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>276,158</u>	<u>253,413</u>
NON-CURRENT LIABILITIES			
Due to related parties		39,000	—
Interest-bearing bank borrowings	14	124,000	127,000
Deferred revenue		3,533	3,789
Total non-current liabilities		<u>166,533</u>	<u>130,789</u>
Net assets		<u>109,625</u>	<u>122,624</u>
EQUITY			
Equity attributable to equity shareholders of the Company			
Issued capital		94,667	94,667
Reserves		14,958	27,957
Total equity		<u>109,625</u>	<u>122,624</u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Issued share capital RMB'000	Share premium account RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
At 1 January 2007	94,667	41,923	2,220	1,110	(17,296)	122,624
Loss for the period	—	—	—	—	(12,999)	(12,999)
At 30 June 2007	94,667	41,923	2,220	1,110	(30,295)	109,625
At 1 January 2006	94,667	41,923	2,220	1,110	8,671	148,591
Loss for the period	—	—	—	—	(14,469)	(14,469)
At 30 June 2006	94,667	41,923	2,220	1,110	(5,798)	134,122



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	For the six months ended 30 June (Unaudited)	
	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES	26,115	(2,310)
CASH FLOWS FROM INVESTING ACTIVITIES	(24,938)	(86,234)
CASH FLOWS FROM FINANCING ACTIVITIES	30,000	95,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,177	6,456
Cash and cash equivalents at the beginning of period	36,963	63,604
CASH AND CASH EQUIVALENTS AT END OF PERIOD	68,140	70,060
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	68,140	70,060



BALANCE SHEET

As at 30 June 2007

	As at 30 June 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
NON-CURRENT ASSETS		
Properties, plant and equipment	205,494	183,468
Prepaid land lease payments	8,525	8,615
Intangible assets	27,924	28,820
Investment in a subsidiary	1,040	1,040
Prepayments for purchase of technical know-how	6,573	6,573
Deferred tax assets	225	225
Total non-current assets	<u>249,781</u>	<u>228,741</u>
CURRENT ASSETS		
Inventories	2,787	2,322
Trade receivables	2,515	2,849
Prepayments, deposits and other receivables	3,237	1,553
Due from related parties	1,489	1,933
Pledged deposits	3,806	4,033
Cash and cash equivalents	67,938	36,771
Total current assets	<u>81,772</u>	<u>49,461</u>
CURRENT LIABILITIES		
Trade payables	721	1,260
Other payables and accruals	6,347	8,284
Interest-bearing bank borrowings	36,000	3,000
Due to related parties	9,000	9,000
Due to a subsidiary	144	716
Tax payable	2,397	2,397
Total current liabilities	<u>54,609</u>	<u>24,657</u>
NET CURRENT ASSETS	<u>27,163</u>	<u>24,804</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>276,944</u>	<u>253,545</u>
NON-CURRENT LIABILITIES		
Due to related parties	39,000	—
Interest-bearing bank borrowings	124,000	127,000
Deferred revenue	3,533	3,789
Total non-current liabilities	<u>166,533</u>	<u>130,789</u>
Net assets	<u>110,411</u>	<u>122,756</u>
EQUITY		
Issued capital	94,667	94,667
Reserves	15,744	28,089
Total equity	<u>110,411</u>	<u>122,756</u>



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Corporate information

Shenzhen Neptunus Interlong Bio-technique Company Limited (the "Company") is a 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 period, the Company and its subsidiary, Ascendent Bio-Technology Company Limited, collectively referred as the "Group", were principally engaged in the research and development and the production and sale of modern biological technology, cytokines category protein therapeutic drugs.

2. Basis of presentation and accounting policies

The interim condensed financial statements for the Relevant Period have been prepared based on Hong Kong Accounting Standard 34 - Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2006.

The accounting policies adopted in preparing the interim condensed financial statements are in line with those adopted in preparing the financial statements of the Group for the year ended 31 December 2006, except for the adoption of the new Hong Kong Financial Reporting Standards "HKFRSs" and Hong Kong Accounting Standards "HKASs" as disclosed in note 3 below.

3. Changes in accounting policies

3.1 Impact of new and amended HKFRSs and HKASs

Hong Kong Institute of Certified Public Accountants has issued certain new and amended HKFRSs and HKASs which are generally applicable for accounting periods beginning on or after 1 January 2007. The Group has adopted the following HKFRS and HKAS which have been issued as at 30 June 2007 and which are relevant with these interim financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions

Adoption of the above accounting standards does not have significant impact on the Group's operating results or financial position.



3.2 Impact of issued but not yet effective HKFRSs and HKASs

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

HKFRS 8	Operating Segments
HK(IFRIC)-Int 12	Service Concession Arrangement

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

HK(IFRIC)- Int 12 shall be applied for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the above policies are unlikely to have a significant impact on the Group's financial statements for the period in which the Group initially adopted such policies.

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 mainland China. All segment assets, liabilities and capital expenditure are located in the mainland China 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:

Six months ended	Mainland China	Pakistan	Others	Total
30 June 2007	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	6,229	813	259	7,301
Cost of sales	(1,953)	(333)	(106)	(2,392)
Gross profit	4,276	480	153	4,909
Six months ended				
30 June 2006				
Segment revenue:				
Sales to external customers	10,443	994	692	12,129
Cost of sales	(1,646)	(294)	(192)	(2,132)
Gross profit	8,797	700	500	9,997



5. Revenue and other income

The Group's revenue represents the net invoiced value of the goods sold net of value-added tax ("VAT") after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 RMB'000	2007 (Unaudited) RMB'000	2006 RMB'000
Revenue				
Sale of medicines	3,565	4,746	7,301	12,129
Other income				
Bank interest income	176	94	234	222
Subsidy income	247	397	262	434
Others	—	—	—	19
	423	491	496	675



6. Loss from operating activities

The Group's loss from operating activities is arrived at after charging:

	For the three months ended 30 June 2007		For the six months ended 30 June 2007	
	2006	2007	2006	2007
	(Unaudited)		(Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories sold	450	677	1,504	1,581
Recognition of prepaid land lease payments*	45	45	90	90
Depreciation	619	1,567	1,413	2,258
Amortisation of intangible assets*	273	541	538	721
Research and development costs**	1,335	1,164	2,055	2,670
Minimum lease payments under operating leases in respect of land and buildings	207	245	452	448
Auditors' remuneration	182	—	182	383
Employee benefits expenses (including Directors' remuneration):				
Salaries and wages	3,373	3,537	6,943	7,831
Pension scheme contributions	147	202	290	403
Impairment loss on bad and doubtful debts**	7,938	1,824	7,938	391
Loss on disposal of properties, plant and equipment	12	—	12	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* 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

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank loans	2,712	1,997	4,935	2,540
Less: Interest capitalised	(2,129)	(620)	(2,224)	(620)
	<u>583</u>	<u>1,377</u>	<u>2,711</u>	<u>1,920</u>

8. Tax

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

The Company is located at the Shenzhen Special Economic Zone and is subject to a corporate income tax rate of 15%.

As a high technology enterprise, the Company obtained approval for a 50% exemption from corporate income tax in 2004, and thereafter 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 periods ended 30 June 2006 and 30 June 2007.

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000
Current-mainland China	—	(345)	—	(345)
Deferred	—	(47)	—	(91)
Total tax charge for the period	<u>—</u>	<u>(392)</u>	<u>—</u>	<u>(436)</u>

9. Dividends

The board of Directors (the "Board") does not recommend the payment or declaration of any dividend for the period (2006: Nil).



10. Loss per share

For the three month and six month periods ended 30 June 2007, the basic losses per share were based on the net loss attributable to equity holders of the Company of approximately RMB6,439,000 and RMB12,999,000 respectively (three month and six month periods ended 30 June 2006: net loss of approximately RMB11,630,000 and net loss of RMB14,469,000 respectively) and 946,670,000 ordinary shares in issue for the three month and six month periods ended 30 June 2007 (2006: 946,670,000 ordinary shares).

Diluted earnings per share for the three month and six month periods ended 30 June 2006 and 2007 have not been presented because no potential dilutive ordinary shares existed during these periods.

11. Properties, plant and equipment

During the six month period ended 30 June 2007, properties, plant and equipment purchased by the Company were approximately RMB22,300,000 (2006: RMB64,282,000).

12. Trade receivables

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within 3 months	522	580
4 to 6 months	125	1,059
7 to 12 months	3,783	2,144
Over 1 year	7,980	8,570
	12,410	12,353
Impairment loss on bad and doubtful debts	(9,895)	(9,504)
	2,515	2,849



13. Trade payables

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within 3 months	190	570
4 to 6 months	260	337
7 to 12 months	—	218
Over 1 year	271	135
	721	1,260

14. Interest-bearing bank borrowings

	Effective interest rate (%)	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Current:			
Bank loan – unsecured	6.39	30,000	—
Current portion of long term bank loan – secured	6.84	6,000	3,000
		36,000	3,000
Non-current:			
Long-term bank loan – secured	6.84	124,000	127,000
		160,000	130,000



	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	36,000	3,000
In the second year	11,000	7,000
In the third to fifth years, inclusive	64,000	58,000
Beyond five years	49,000	62,000
	<u>160,000</u>	<u>130,000</u>

Notes:

- (a) Shenzhen Neptunus Bio-engineering Co., Ltd., ("Neptunus Bio-engineering") the Company's controlling shareholder, has guaranteed the Group's bank loan of RMB130,000,000 (2006: RMB130,000,000) as at the balance sheet date (note 16(b)).
- (b) 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 RMB8,615,000 (2006: RMB8,796,000);
 - (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 RMB161,494,000 (2006: RMB152,141,000);
 - (iii) the pledge of 639,000,000 domestic shares in the Company held by Neptunus Bio-engineering (note 16(c));
 - (iv) the pledge of 47,671,000 domestic shares in the Company held by Mr. Chai Xiang Dong, the Company's management shareholder (note 16(c)); and
 - (v) the pledge of the right to revenue derived from subunit vaccine of influenza virus.



15. Commitments

The Group had the following capital commitments at the balance sheet date:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Contracted, but not paid:		
Technical know-how, net of deposits	11,918	11,918
Properties, plant and equipment	23,934	30,860
Land lease pre-payments, net of deposits	5,500	5,500
Others	—	209
	41,352	48,487
Authorised, but not contracted for:		
Properties, plant and equipment	—	2,738
	41,352	51,225



16. Related party transactions

(a) The Group had the following significant transactions with related parties during the Relevant Period:

Name of related parties	Nature of transactions	Note	For the six months ended	
			2007	2006
			(Unaudited)	
			RMB'000	RMB'000
Shenzhen Neptunus Pharmaceutical Company Limited	Rental of factory premises	(i) (ii)	60	60
	Recharge on the use of plant and machinery	(i) (iii)	42	168
	Recharge of direct labour costs	(i) (iv)	58	104
	Recharge of water, electricity and fuel costs	(i) (v)	210	159
	Management fees	(i) (vi)	4	7
	Property management fees	(i) (vii)	23	14
	Shenzhen Neptunus Tongai Pharmaceutical Company Limited	Rental of office and factory premises	(i) (viii)	134
Neptunus Bio-engineering	Loan from the shareholder	(i) (ix)	39,000	—

Notes:

- (i) 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.
- (ii) The rental of factory premises was charged at pre-agreed rates with reference to market prices.
- (iii) 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 Company on those assets.
- (iv) 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.
- (v) The recharge of water, electricity and fuel costs was based on pre-agreed rates with reference to the Group's production activities.



- (vi) The management fees were charged at pre-agreed rates.
 - (vii) The property management fees were charged at pre-agreed rates.
 - (viii) The rental of office and factory premises was charged at pre-agreed rates with reference to market prices.
 - (ix) On 6 April 2007, the Company entered into a Loan Contract for an amount of RMB39,000,000 with Neptunus Bio-engineering for a term of two years. The amount under the loan is repayable on 5 April 2009. The Company has not provided any pledge or guarantee in respect of the above loan.
- (b) During the Relevant Period, Neptunus Bio-engineering has provided guarantee in respect of the Company's bank loan totalling RMB130,000,000 (2006: RMB130,000,000) (note 14).
- (c) During the Relevant Period, Neptunus Bio-engineering and Mr. Chai Xiang Dong, the Company's management shareholder, pledged the 639,000,000 domestic shares and 47,671,000 domestic shares which they held in the Company respectively, as the security for the Company's bank loans amounting to RMB130,000,000 (2006: RMB130,000,000) (note 14).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Relevant Period, the Company mainly produced three drugs, namely rhIFN α 2b for injection, recombinant human interleukin-2 (125Ser) ("rhIL-2 (125Ser)") for injection and influenza vaccine, and mainly sold two drugs, rhIFN α 2b for injection and rhIL-2(125Ser) for injection the sales season of the influenza vaccine for the year has yet to commence. The two abovementioned products were mainly sold in the PRC and partly exported to the Southeast Asian markets.

Influenza Vaccine Business

During the Relevant Period, the Company's manufacturing workshop for the new product in the Neptunus Industrial Complex operated as scheduled. The production process was upgraded continuously, the product unit costs continues to decrease and mass production continued to increase. Influenza vaccine is scheduled to be launched in the market when the sales season of influenza vaccine for the year 2007 to 2008 commences.

During the Relevant Period, the Company prepared for the application of the PRC GMP Certification for the influenza vaccine plant in Baoan district, Shenzhen.

International Market Business

The Company has submitted rhIFN α 2b or rhIL-2 (125Ser) drug registration information to the relevant authorities in Korea, Thailand, Ukraine, Columbia, Mexico and Vietnam and these applications are still pending approval.



Research and Development

During the Relevant Period, the Company's drug with the common name Recombinant Human Interleukin-2 (125 Ser) for injection has obtained drug supplementary application approval for its lyophilized form of 3 mln IU per unit and 6 mln IU per unit specifications (Approval No. 2007B00451). Drugs with these specifications are exclusively for export, and will not be marketed in the PRC.

On 27 April 2007, the Company's Inactivated Split Influenza Vaccine of specification 0.25ml per unit has obtained approval for clinical testing (Approval No. 2007L01222). The clinical tests will be conducted within 3 years from the date of approval.

On 27 April 2007, the Company's Inactivated Split Influenza Vaccine of specification 0.5ml per unit has also obtained approval for clinical testing (Approval No. 2007L01455). The clinical tests will be conducted within 3 years from the date of approval.

Use of proceeds

On 12 September 2005 (hereinafter referred to as the "Listing Date"), the Company successfully listed on GEM by way of issue of new shares through placing, and the net proceeds received net of related expenses was approximately RMB65,590,000. For the six months ended 30 June 2007, the net proceeds from the Company's listing was applied in the following ways:

	Proposed amount required from the Listing Date up to 30 June 2007 (HK\$ million)	Actual amount applied from the Listing Date up to 30 June 2007 (HK\$ million)
Newly constructed production base and enhanced production facilities	<u>75</u>	<u>66</u>



Comparison of Business Objectives with Actual Progress

The table below sets out a comparison of the Company's actual business progress during the Relevant Period with the Business Objectives set out in the prospectus dated 29 August 2005 (the "Prospectus")

	Expected progress as at 30 June 2007	Actual progress as at 30 June 2007
Construction of new production base and expansion of production facilities		
Subunit vaccine of influenza virus (also called "vaccine 100") (leased properties)	- modify the existing production facilities and obtain GMP Certificate for such facilities	- operation commenced in the fourth quarter of 2006
Subunit vaccine of influenza virus (also called "vaccine 1000") (Baoan GMP Factory)	- apply for the GMP Certificate for Baoan factory	- preparing for application of GMP certification
rhIFN α 2b liposome cream	- construct production lines and purchase relevant equipment	- condition for production still pending, and GMP certification application deferred
rhIFN α 2b vaginal effervescent tablet	- complete construction and obtain GMP Certificate	- completed construction of GMP workshop, applications for new medicine certificate and production permit are being reviewed by the State Food and Drug Administration of China (中國國家食品藥品監督管理局) ("SFDA")



	Expected progress as at 30 June 2007	Actual progress as at 30 June 2007
Construction of new production base and expansion of production facilities		
Rabies vaccine in vero cell	- commence construction of production lines in Baoan GMP Factory	- application for new medicine certificate is being reviewed by SFDA, construction of GMP workshop was delayed
rhIFN α 2b buccal tablet	- construct production lines and purchase relevant equipment	- condition for production still pending, construction of production lines deferred
R&D of new products		
Subunit vaccine of influenza virus	- launch product in the market before the end of 2005	- product intended to be launched in the market in the fourth quarter of 2007
Rabies vaccine in vero cell	- obtain new medicine certificate and apply for production permit	- application for new medicine certificate is under review by the SFDA
rhIFN α 2b buccal tablet	- apply for new medicine certificate	- second stage of the clinical plan is rejected, the Company is planning to apply for a change of its indications, and the progress of clinical testing is expected to be delayed
rhIFN α 2b liposome cream	- launch product in the market	- registration of the new medicine was unsuccessful and schedule deferred



	Expected progress as at 30 June 2007	Actual progress as at 30 June 2007
R&D of new products		
rhIFN α 2b vaginal effervescent tablet	<ul style="list-style-type: none"> - obtain production permit - launch product in the market 	<ul style="list-style-type: none"> - applications for new medicine certificate and production permit are under review by the SFDA
rhNGF	<ul style="list-style-type: none"> - obtain approval for clinical research and carry out clinical research 	<ul style="list-style-type: none"> - process testing is being conducted together with the cooperation party, at the same time, animal drug research is being initiated
rhHSS	<ul style="list-style-type: none"> - obtain approval for clinical research and carry out clinical research 	<ul style="list-style-type: none"> - pre-clinical researches are still being conducted
Expansion of sales network		
Expansion plan	<ul style="list-style-type: none"> - expand sales team for vaccine products - apply medicine registration in more countries 	<ul style="list-style-type: none"> - influenza vaccines intended to be launched in the market in the fourth quarter of 2007, and setup of professional sales team is underway - completed registration of rhIFNα2b for injection in Indonesia and Philippines. - applications for medicine registration have been made in Korea, Ukraine, Columbia, Mexico, Vietnam and Thailand.



FINANCIAL REVIEW

Revenue of the Group for the Relevant Period amounted to approximately RMB7,301,000, representing a decline of 39.81% from RMB12,129,000 as compared with the corresponding period of the previous year. Revenue derived from the Company's principal product for injection rhIFN α 2b during the Relevant Period was RMB5,866,790, accounting for approximately 80.36% of the total revenue of the Company. The decline was mainly due to the significant decrease in the unit selling price of the Company's products under the impact of a change in the Company's sales model. At the same time, during the Relevant Period, the Company has successfully completed the change in the Company's sales model with enlarged scale of cooperation with agents and increased promotional efforts for end users. The sales volume of the Company's products also increased as compared with the same period of the previous year, in particular the sales volume of high specification products with high profitability, which recorded a higher growth rate than the same period of the previous year and growth was also recorded in the market share. The Company adjusted its sales strategy for low specification products of low profitability, hence the sales volume of low specification products of low profitability also decreased.

During the Relevant Period, the gross profit and the gross margin of the Company was approximately RMB4,909,000 and 67.24% respectively, representing a decrease of approximately RMB5,088,000 and a decrease of 15.18% as compared with the corresponding period of the previous year. The decrease in the total gross profit was due to a decline in the unit selling price. Decrease in expenses was mainly due to the Company's change of its marketing model in August 2006 - from the previous direct sales and distribution model to a marketing model through agents, and selling products to agents at low prices. The Company is no longer engaged in professional marketing and promotions of products, resulting in the substantial decrease in expenses. As a result of the Company's change of its marketing model since August 2006, the Company's unit selling price has dropped substantially, with the related costs remaining basically stable, thus the gross margin has also dropped. The Company is focused on increasing its sales efforts in promoting high specification products of high profitability in order to offset the fall in the gross margin resulted from a decline in the unit selling price due to the change in the sales model.

Selling and distribution expenses of the Company amounted to RMB2,174,000 during the Relevant Period, representing a drastic decrease of approximately RMB6,609,000 or approximately 75.25% over the corresponding period of the previous year.

The administrative expenses of the Company amounted to approximately RMB5,919,000 during the Relevant Period, representing an increase of approximately RMB1,050,000 or approximately 21.57% when compared to that of the corresponding period of last year. Such increase was mainly due to the fact that all of the Company's vaccine 100 construction-in-progress and part of the vaccine 1000 construction-in-progress were transferred as fixed assets, the depreciation was increased and there was an increase in the total cost of employees' salaries and fee for review of the Company's internal control.

Other operating expenses of the Company were approximately RMB7,600,000 during the Relevant Period, representing a decrease of RMB2,405,000 or 24.04% as compared with the same period of last year. Such decrease was mainly due to the provision of doubtful debts of RMB7,833,000 which was recorded during the same period last year, but in the current year the provision amount has only increased by RMB391,000.



The Company's loss before tax during the Relevant Period was approximately RMB12,999,000, which was lower than the loss of RMB14,905,000 recorded in the same period of last year. While the Company's revenue recorded a reduction, selling expenses also reduced significantly due to the change in the sales model.

As such, loss attributable to the equity holders of the Company amounted to approximately RMB12,999,000 for the Relevant Period, while the loss attributable to the equity holders of the Company was approximately RMB14,469,000 for the corresponding period of last year.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings and banking facilities

As of 30 June 2007, the Company had total bank financing liabilities of approximately RMB208,000,000 ("Bank borrowings"), of which short-term bank borrowings were approximately RMB30,000,000 ("Short-term bank borrowings"), and long-term bank borrowings were RMB130,000,000. Loans from the Company's controlling shareholders were approximately RMB48,000,000.

On 23 May 2006, the Company entered into a long-term loan agreement (the "CDB Loan Agreement") with China Development Bank ("CDB") for the grant by CDB of a loan of RMB130,000,000 (the "CDB Loan") to the Company to finance the Company's project on subunit vaccine of influenza virus (the "Project"). Pursuant to the CDB Loan Agreement, CDB requires the Company, Neptunus Bio-engineering, the Company's controlling shareholder, and Mr. Chai Xiang Dong, the 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 CDB Loan. The Company would apply the revenue from the Project to repay the CDB Loan by instalments.

On 26 March 2007, the Company entered into an Entrusted Loan Agreement with Industrial Bank and an independent third party in respect of an amount of approximately RMB30,000,000 (the "Entrusted Loan") for a term of one year. The Entrusted Loan is repayable on 26 March 2008 and the Company has not provided any guarantee or securities in respect of the Entrusted Loan.

On 6 April 2007, the Company entered into a loan agreement in respect of an amount of RMB39,000,000 with Neptunus Bio-engineering for a term of two years. The amount is due for repayment on 5 April 2009. The Company has not provided any guarantee or securities in respect of the above loan.



The CDB Loan Agreement and the CDB Loan

Specific performance obligations by the controlling shareholder

The CDB 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 CDB Loan. The CDB Loan Agreement requires Neptunus Bio-engineering to enter into an Agreement on Pledge of Shares with CDB and to act as a guarantor with joint liabilities together with the Company for the CDB Loan and to execute a Guarantee Agreement in favour of CDB. Neptunus Bio-engineering entered into the Agreement on Pledge of Shares and the Guarantee Agreement with CDB on 23 May 2006. The CDB Loan Agreement further requires that such Guarantee Agreement and Agreement on Pledge of Shares should remain valid during the term of the CDB Loan, that Neptunus Bio-engineering would not be in breach of any provisions of the CDB Loan Agreement and that there would 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 CDB 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 CDB Loan Agreement further requires Neptunus Bio-engineering and Mr. Chai Xiang Dong to provide CDB with an undertaking in relation to the restrictions on the distribution of dividends by the Company. Neptunus Bio-engineering and Mr. Chai Xiang Dong have undertaken to strictly observe the conditions for distribution of dividends as provided in the CDB 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 provided in the CDB Loan Agreement have not been satisfied.

Pledge of Shares by controlling shareholder

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

Although the Guarantee Agreement and the Agreement on Pledge of Shares executed by Neptunus Bio-engineering for the purpose of securing the CDB Loan and its shareholders' loan to the Company amount to financial assistance to the Company, and are connected transactions under the GEM Listing Rules, 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 connected transactions are therefore exempt connected transactions under Rule 20.65(4) of the GEM Listing Rules.



Pledge of Shares by management shareholder

On 23 May 2006, Mr. Chai Xiang Dong, the management shareholder of the Company, entered into an Agreement on Pledge of Shares with CDB pursuant to which Mr. Chai Xiang Dong pledged 47,671,000 domestic shares of the Company currently held by him (representing approximately 5.04% of the Company's issued share capital) to CDB as security for the CDB Loan. Pursuant to the Agreement on Pledge of Shares, if the Company fails to repay the CDB Loan in accordance with the terms of the CDB Loan Agreement, CDB would be entitled to sell the abovementioned pledged shares and to apply such proceeds to set-off the CDB Loan. The Company had received a notice from Mr. Chai Xiang Dong regarding the aforesaid pledge of Shares and had 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, if Mr. Chai Xiang Dong acquires new shares, pursuant to any bonus or rights issues of shares offered by the Company to its shareholders during the term of the pledge of Shares, the new shares will automatically become the pledged property under the aforesaid Agreement on Pledge of Shares 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 executed by Mr. Chai Xiang Dong for the purpose of securing the CDB Loan amounts to financial assistance to the Company and is a connected transaction under the GEM Listing Rules, 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 connected transaction is therefore an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules.

Shareholder's Loans

The Shareholder's loan amounting to RMB9,000,000 is interest free and has been used to pay off the land premium for the land used by the Company for the construction of the new production base in Baoan, Shenzhen. There is no fixed due date for the repayment of the above 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 such Shareholder's loan would 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 such Shareholder's loan would 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 would make an announcement in respect of the decision of the independent non-executive Directors; and (3) the Company has a positive cash flow and has retained profits in the relevant financial year.

The Shareholder's loan amounting to RMB39,000,000 for a term of two years obtained by the Company on 6 April 2007 was mainly used as working capital in the daily operating activities of the Company. The interest of this borrowing shall take reference to the interest rates for the CDB Loan for the same period, to be repaid together with the principal upon maturity.



Gearing ratio

As at 30 June 2007, the gearing ratio of the Company was approximately 145.95% (end of 2006: 106.02%) and was calculated by a division of the total interest-bearing borrowings by equity.

The Company's transactions are mainly denominated in Renminbi, and are regularly reviewed for the requirements of liquidity and financing.

Net current assets

As at 30 June 2007, the Group had net current assets of approximately RMB27,417,000. Current assets comprised cash and cash equivalents of approximately RMB68,140,000, trade receivables of approximately RMB2,515,000, amounts due from related companies of approximately RMB1,489,000, inventories of approximately RMB2,787,000, prepayments, deposits and other receivables of approximately RMB3,237,000, pledged deposits of approximately RMB3,806,000. Current liabilities comprised trade payables of approximately RMB721,000, short-term borrowings of approximately RMB36,000,000, amounts due to related companies of approximately RMB9,000,000, taxes payable of approximately RMB2,397,000 and other payables of approximately RMB6,439,000. Compared with 31 December 2006's net current asset position of approximately RMB25,712,000, the increase in net current assets was mainly due to increase in borrowing from related parties.

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, the Company is required to pledge all income rights under the 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

All the Company's operating activities are conducted in the PRC, and all transactions are denominated in Renminbi. Therefore, the Company's exposures to changes in foreign exchange are minimal.

Contingent Liability

As at 30 June 2007, the Company had no significant contingent liability.



PROSPECT

International market operations

The Company will continue to secure and expand overseas medicine registrations for rhIFN α 2b for injection and sales channels through overseas sales agents or intermediaries. The Company will also seek medicine registration and business expansions in overseas markets for rhIL (125 Ser) for injection gradually through cooperations with overseas sales agents.

Influenza vaccine operations

According to the statistical data set out in the influenza vaccine report issued by the National Institute for the Control of Pharmaceutical and Biological Products (中國藥品生物製品檢定所), the total production of influenza vaccines in the domestic market in the PRC in 2006 was approximately 26 million units. 2007 will be the first year for the Company's formal sales of the new influenza vaccine products. The Company will actively expand its business in order to obtain the maximum market share in the PRC.

Other development opportunities

The Company will continue to invest in the R&D of new products so as to upgrade the existing product structure and minimise operation risks.

Meanwhile, the Company is actively constructing a long-term and steady overseas marketing channel, leveraging on its related experience and providing consultation services to other domestic operators, so that the invested resources may create maximum economic returns.

The Company has established a wholly-owned subsidiary, Ascendent Bio-Technology Company Limited in Hong Kong. The establishment of such a subsidiary will facilitate the Company to gain access to international markets, and will provide more opportunities for the Company's future developments.



INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE LISTED SECURITIES OF THE COMPANY

As at 30 June 2007, the interests and short positions of the Directors, supervisors and the chief executives of the Company in the shares, 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 (Chapter 571 of Laws of Hong Kong) (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 regarding the securities of their listed issuer 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 issued share capital
Mr. Chai Xiang Dong ^(Note 1)	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Ms. Wang Yan ^(Note 2)	Beneficial owner	Personal	14,200,000	2.00%	1.50%
Mr. Yu Jun ^(Note 3)	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

- 1 Executive Director and general manager of the Company
- 2 Executive Director of the Company
- 3 Supervisor and employee of the Company



Long positions in shares of associated corporations:

Director	Capacity	Type of Interests	Name of associated corporation	Numbers of shares/ percentage of shares in associated corporation	Approximate percentage of the associated corporation's issued share capital
Mr. Zhang Si Min (Note (a))	Beneficial owner	Personal	Neptunus Bio-engineering	332,016	0.054%
Mr. Zhang Si Min (Note (b))	Beneficial owner	Personal	Ankeen Enterprises Limited	15	15%
Mr. Yu Lin (Note (c))	Beneficial owner	Personal	Neptunus Bio-engineering	73,515	0.012%

Notes:

- (a) Mr. Zhang Si Min was interested in 0.054% of the entire share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn was interested in approximately 67.5% of the issued share capital of the Company as at 30 June 2007.
- (b) Mr. Zhang Si Min held 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 30 June 2007.
- (c) Ms. Yu Lin was interested in 0.012% of the issued share capital of Neptunus Bio-engineering, the controlling shareholder of the Company, which in turn was interested in approximately 67.5% of the issued share capital of the Company as at 30 June 2007.

Save as disclosed above, as at 30 June 2007, none of the Directors, supervisors or chief executives of the Company nor 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 regarding the securities of their listed issuer as referred to in Rules 5.46 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during the Relevant Period had any of the Directors and supervisors of the Company or any of their spouses or their children under the age of 18 been allotted any shares of the Company, nor had they been granted any right to acquire shares of the Company; nor were the Company, its holding company, or any of its fellow subsidiaries a party to any arrangements enabling any Directors of the Company to acquire such rights of any other associated corporations.



SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as the Directors and supervisors of the Company are aware, as at 30 June 2007, the interests and/or short positions held by shareholders (not being a Director, a supervisor or a chief executive of the Company) in shares or underlying shares of the Company which were 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	Number of domestic shares held	Approximate percentage of the domestic shares	Approximate percentage of the Company's issued share capital
Neptunus Bio-engineering	Beneficial owner	639,000,000	90%	67.5%
Neptunus Group (Note (a))	Interest in controlled corporation	639,000,000	90%	67.5%
Ankeen Enterprises (Note (b))	Interest in controlled corporation	639,000,000	90%	67.5%
Ms. Wang Jin Song (Note (c))	Interest in controlled corporation	639,000,000	90%	67.5%
Ms. Li Li (Note (d))	Interest of spouse	47,671,000	6.71%	5.04%

Notes:

- 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 issued share capital of Neptunus Bio-engineering.
- 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 issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 34.38% of the entire share capital of Neptunus Bio-engineering.
- 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 85% of the entire issued 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 issued share capital of Neptunus Bio-engineering.
- 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 is the spouse of Mr. Chai Xiang Dong and was taken to be beneficially interested in any shares in which Mr. Chai Xiang Dong was interested.

Save as disclosed above, the Directors and supervisors of the Company are not aware of any other persons (except the Directors, supervisors or chief executives 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 as at 30 June 2007.



PURCHASE, REPURCHASE OR SALE OF LISTED SHARES OF THE COMPANY

The Company or its subsidiary has not purchased, repurchased or sold any of the Company's listed securities during the Relevant Period.

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 Rule 18.03 of the GEM Listing Rules in respect of the Company's financial results for the year ending 31 December 2007. 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 shares of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the shares of the Company as at 30 June 2007.

COMPETING INTERESTS

On 21 August 2005, Neptunus Bio-engineering, the controlling shareholder of the Company, entered into certain agreements with the Company, including the relevant non-competition undertakings and investment priorities (the "Non-Competition Undertakings"), pursuant to which Neptunus Bio-engineering, *inter alia*, had undertaken to the Company and its associates that as long as the securities of the Company are listed on GEM:

1. 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, or produce any products, the usage of which is the same as or similar to that of the products of the Company, and which may constitute direct or indirect competition with the business operated by the Company from time to time; and
2. 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, during the term of such Undertakings, when Neptunus Bio-engineering or its associates enter into any negotiations, within or outside PRC, in relation to any new investment project which may compete with the existing and future business of the Company, the Company shall have a preferential right of investment in such new investment projects.



CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the Relevant Period, the Company has adopted a code of conduct regarding securities transactions by 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 inquiries to all Directors, the Directors confirmed that no transaction in the securities of the Company has been conducted during the Relevant Period, and the Company is not aware of any violation by the Directors on the standard of dealings and the standard of transactions as required under the code of conduct.

AUDIT COMMITTEE

The Company established an Audit Committee on 21 August 2005 in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports, and to provide suggestions and opinions thereon to the Board. In addition, the Audit Committee members will also meet with the management to review the accounting principles and practices adopted by the Company and to discuss matters relating to the auditing, internal control system and financial reporting process of the Company. The Audit Committee comprises 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 is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited results of the Group for the Relevant Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

So far as the Directors are aware, the Company has complied with the requirements set out in Appendix 15 "The Code on Corporate Governance Practices" of the GEM Listing Rules during the Relevant Period. The Board will continue to govern and enhance the standards for corporate governance of the Company, and ensure the Company operates its business in an honest and responsible manner.

On behalf of the Board

Shenzhen Neptunus Interlong Bio-technique Company Limited

Zhang Si Min

Chairman

Shenzhen, the PRC, 8 August 2007

As at the date of this report, the executive Directors of the Company are Mr. Zhang Si Min, Mr. Chai Xiang Dong and Ms. Wang Yan; the non-executive Directors are Ms. Yu Lin and Mr. Ren De Quan; and the independent non-executive Directors are Mr. Yick Wing Fat, Simon, Mr. Poon Ka Yeung and Mr. Lu Sun.