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 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 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.

Contents

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

CCIF CPA Limited

COMPLIANCE ADVISER

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

1/F, Block 1, Research Building,
Neptunus Technical Center,
Langshan 2nd R.N.,
Nanshan District,
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

Dear shareholders,

2007 is the first year after the Company has completed the transformation of its sales and marketing mechanism. An improved agency sales administration system has been established by the Company. The sales teams of the Company were streamlined and the sales prices of the two products, recombinant human interferon α2b for injection and recombinant human interleukin-2(125Ser) for injection, experienced a steep decline with the transformation of the sales and marketing mechanism. But the new sales mechanism has satisfied the needs of the current changing market, and the sales volumes of these two products of high dosage were higher this year as compared with the previous year. In 2008, the Company will continue to motivate and regulate the agencies more vigorously in order to increase sales steadily.

The new product subunit vaccine of influenza virus (the "influenza vaccine") was launched for sale on the market in September 2007. The Company has adopted the most advanced third-generation subunit influenza vaccine technology to produce its influenza vaccine products. It is safer and more suitable for extensive inoculation. The Company also owns the exclusive patent right to use the technology in this area and it is also the first domestic supplier permitted to manufacture the influenza vaccine. The Company, will continue to focus on the marketing promotions of the influenza vaccine at the later stage, and the rising market share of the influenza vaccine is expected to provide positive support to the operating results of the Company.

Construction of the Company's new influenza vaccine plant (with a designed annual capacity of 10 million doses) in Baoan district, Shenzhen had been completed, and approval for this new additional medicine production site was granted during the year. The Company has been actively recruiting staff with international and advanced production management experience in order to speed up the preparation work for obtaining the GMP certification approval in China and to upgrade the production quality control system of the Baoan influenza vaccine production base continuously by making reference to the higher current international standards. All these, together, will form a foundation for the influenza vaccine of the Company to gain a well-positioned share in the international market at the later stage.

The Company has already obtained new medicine certificate and production approval for the new product rhIFNα2b effervescent tablet. The tablet is used mainly in the treatment of viral gynecological diseases such as chronic cervical infection. The Company has commenced constructing the production workshop for the rhIFNα2b effervescent tablet in order to launch it on the market as soon as possible. At present, no identical products are available in the PRC and overseas. The Company has filed an 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 in recent years about the attack and the mortality rate of gynaecological diseases and the fact that interferons are highly effective in immunoloregulation, the potential market demand of such a product is huge.

The Board of Directors (the "Board") is confident about the business prospects of the Company and its subsidiary Ascendent Bio-Technology Company Limited (collectively referred to as the "Group").

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 continuing support to 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 sale of cytokine therapeutic drugs and production of vaccines for infectious diseases in the PRC for the year ended 31 December 2007 (the "Year"). During the Year, the Company mainly produced and sold three drugs, namely recombinant human interferon α2b ("rhIFNα2b") for injection, recombinant human interleukin-2 (125Ser) ("rhIL-2 (125Ser)") for injection and influenza vaccine, among which the sale of the two medicines rhIFNα2b for injection and rhIL-2(125Ser) for injection accounted for 90% of the Company's total income. The two products were mainly sold in the PRC and partly exported to the Southeast Asian markets. Influenza vaccine was launched on the market for sale in late September 2007 and its sales of accounted for 10% of the Company's total income.

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. During the Year, the Company's manufacturing workshop for the product located in the Neptunus Industrial Complex (with a designed annual capacity of 1 million doses) commenced production as scheduled. The production process is being improved continuously, the unit production cost has continued to decrease because mass production continued to increase. The influenza vaccine was launched on the market in September 2007, achieving sales income of RMB 1,613,000 for the Year.

Construction of the Company's new influenza vaccine plant (with a designed annual capacity of 10 million doses) in Baoan district, Shenzhen has been completed. During the Year, the Company obtained the permit for new medicine production site and is in preliminary preparations for the application for the PRC GMP Certification. The Company will concentrate on speeding up the preliminary preparation process for the PRC GMP certification, in respect of influenza vaccine (with a designed capacity of 10 million).

RESEARCH AND DEVELOPMENT

New product development

Following the completion of the clinical research of rhIFNα2b effervescent tablet, the Company applied to the State Food & Drug Administration of China (中國國家食品藥品監督管理局) ("SFDA") for the new medicine certificate during the Year and obtained the approval for production and new medicine certificate for rhIFNα2b effervescent tablet after the reporting period. The project is currently at the stage of application for the GMP Certification.

The clinical trial of rhIFNα2b liposome cream has been completed and the application for new medicine certificate has been submitted to SFDA in February of the Year. The project has been submitted to the appraisal committee. The Company will confirm the timetable for the construction of the workshop according to the progress of the appraisal of the new medicine.

rhIFNα2b buccal tablet has completed the first phase of clinical trial. Howerer, SFDA rejected the application for administrative reconsideration submitted by the Company in writing. The Company is seeking for other indications for clinical experiments.

For the rabies vaccine in vero cell ("rabies vaccine") project, the stage of SFDA technical appraisal has been completed. The project is currently in the process of obtaining administrative approval by SFDA.

Management Discussion and Analysis

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. Pilot tests on rhNGF have been undertaken by the cooperation party and is currently at the stage of the study of pharmacodynamics in animals.

Details of the actual progress in the above projects and the business objectives of the Company contained in the prospectus published by the Company on 29 August 2005 (the "Prospectus") are set out in "Comparison Between the Actual Business Progress and Business Objectives" on page 17 in this report.

Save as disclosed in the Prospectus, the Company has also developed the business of research and development on other new projects. During the Year, the Company obtained the medicine clinical experiment approval for "Inactivated Split Influenza Vaccine" of specification 0.25ml per unit and "Inactivated Split Influenza Vaccine" of specification 0.5ml per unit, and is currently conducting research on clinical trial.

Patents

On 28 February 2007, the Company obtained the patent certificate for the patent of "a protein medicine in microcapsules and its inhalable aerosol" (Patent No.: ZL200410096165.X) granted by the State Intellectual Property Office of the PRC with a patent term expiring on 30 November 2024.

On 23 July 2007, the Company obtained the patent certificate for the patent for " interferon liposome cream" (Patent No.ZL200410011698.3) granted by the State Intellectual Property Office of the PRC with a patent term expiring on 31 December 2024.

On 21 September 2007, the Company obtained the invention patent for "yeast expression system of recombinant human nerve growth factor and preparation method for recombinant human nerve growth factor" granted by the State Intellectual Property Office of the PRC, and is in the process of applying for the patent certificate.

SALES AND MARKETING BUSINESS

Domestic market business

Given the changes in the PRC market environment and policies in the previous year, the Company completed the sales model transformation, in respect of the two products of rhIFNα2b for injection and rhIL-2 (125Ser) for injection during the Year, from the original self-operated professional sales promotion model to the agency model. In the meantime, to adapt to the sales model transformation, the Company has established a better organization structure and system of duties and responsibilities while establishing and improving the agency management system, specifying the work flow of the new sales model which has been implemented smoothly in the PRC market.

During the Year, the sales volumes of the two products of rhIFNα2b for injection and rhIL-2 (125Ser) for injection increased when compared with those of last year. In particular the sales of high dosage rhIL-2 (125Ser) for injection significantly increased compared with last year. During the Year, selling and distribution expenses were reduced by approximately 64.6% compared to the same period in the previous year, demonstrating that the agency model the Company adopted in the domestic market business corresponded to the actual market conditions in the PRC.

Management Discussion and Analysis

The influenza vaccine has been launched on the market in the Year. The Company has gradually formed the professional sales team for influenza vaccine and reached the sales target of 43,920 doses of influenza vaccine in the Year. The Company will be engaged in academic exchanges and promotions in respect of influenza vaccine at a later stage to expand its market influence and raise brand recognition in the market so as to increase its market share.

INTERNATIONAL MARKET BUSINESS

The business of the Company in Pakistan achieved further growth. rhIFNα2b for injection of the Company has been recognized by Pakistan army hospitals and the Company commenced mass sales which have been increasing progressively. During the Year, the Company continued to make applications for registrations in countries such as Ukraine, Mexico and Brazil, etc; in addition, the Company has entered into an exclusive agreement with Thailand Red Cross Society ("Red Cross") in respect of its influenza vaccine products. Red Cross will assist the Company in completing the medicine registration for and the exclusive sales of the influenza vaccine products afterwards in Thailand.

FINANCIAL REVIEW

Revenue of the Group amounted to approximately RMB16,160,000 for the Year, representing a decline of approximately 20% as compared with approximately RMB20,181,000 of the previous year. Revenue for the Year was derived from three products, namely rhIFNα2b for injection, rhIL-2(125Ser) for injection and influenza vaccine, which accounted for approximately 74.1%, 15.9% and 10.0% of the 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 were sold to agents at low prices. During the Year, the Company implemented the new marketing model mainly based on agents, while from January to July 2006, the Company implemented a marketing model mainly based on its own sales and distribution teams. There were significant discrepancies in the unit sales price of products during the two years. In terms of product sales and profits, the Company has completed the transformation of the sales model and product restructuring. The sales of high specification products in rhIFNα2b for injection and rhIL-2(125Ser) for injection increased significantly: rhIFNα2b of 5mIU for injection by 6% as compared with the previous year, rhIL–2(125Ser) of 2mIU for injection by 110% as compared with the previous year. During the Year, revenue from domestic sales and exports amounted to approximately RMB13,346,000 and RMB2,814,000 respectively, accounting for approximately 82.6% and 17.4% of the total revenue respectively. Export revenue decreased by approximately 12.3% compared to that of the previous year.

During the Year, the gross profit and the gross margin of the Group were approximately RMB11,057,000 and 68.4% respectively, representing a decrease of approximately RMB1,427,000 and an increase of approximately 6.5% as compared with the corresponding perod of the previous year. The decrease was mainly due to the continuous drop in the sales price of the various kinds of products. The decreases in the amount and extent in the gross profit were less than that in the sales amount, because the Company is more dedicated in the sale of high specification products in the Year, and high specification products have higher gross margins.

Management Discussion and Analysis

Selling and distribution expenses of the Group amounted to approximately RMB3,897,000 during the Year, accounting for approximately 24.1% of the revenue, and representing a sharp decline of approximately RMB7,105,000, or approximately 64.6%, over RMB11,002,000 as compared with that of the previous year. The major reasons for the decline in expenses include: (a) due to the successful completion of the Company's transformation of marketing model during the Year, the proportion of sales expenses paid under the marketing model based on agents also dropped significantly; (b) sales expenses of the Company's new product, influenza vaccine, has a lower proportion to the sales revenue of such product. The Company's management on the sales and distribution expenses has achieved satisfactory results during the Year.

Administrative expenses of the Group amounted to approximately RMB17,088,000 for the Year, accounting for approximately 105.7% of the revenue, and representing a sharp increase of approximately RMB4,574,000 from approximately RMB12,514,000 of the previous year, representing an increase of approximately 36.6%. The major reasons for the increase in expenses include: to facilitate the development of the influenza vaccine project with a designed annual capacity of 10 million doses, the Company has recruited many senior professionals and encouraged their stay. Accordingly, the labour cost increased by approximately RMB2,605,000; (ii) the Company appointed an external consultant to review its internal control system during the Year, resulting its audit and assessment fees to increase by approximately RMB488,000; (iii) expenses of approximately RMB591,000 incurred due to the seasonal suspension of influenza vaccine production; and (iv) because more fixed assets have been used by the Company at the new influenza vaccine plant with a designed annual capacity of 10 million doses in Baoan District, the expenses due to depreciation have increased by RMB547,000.

Finance costs of the Group amounted to approximately RMB2,541,000 for the Year, representing a decrease of approximately RMB477,000 from RMB3,018,000 of the previous year, representing a decrease of approximately 15.8%. The major reason for the decrease was because the Group's construction of the Company's influenza vaccine plant (with a designed annual capacity of 10 million doses) was a major project in Shenzhen, the Company has received more financial subsidy for loan interests as compared with the previous year.

Other operating expenses of the Group amounted to approximately RMB12,270,000 for the Year, decreased by approximately RMB1,224,000 compared with RMB13,494,000 of the previous year. Other operating expenses mainly comprised: (i) research and development expenses for the Year of approximately RMB8,423,000, an increase of 22.8% over the corresponding period of the previous year; (ii) amortisation of intangible assets for the Year of RMB3,004,000, which was mainly due to the increase in the relevant intangible asset amortisation recognised as result of the operation of the influenza vaccine workshop.

Total loss before taxation of the Group amounted to approximately RMB21,392,000 for the Year, representing a decline of approximately RMB4,546,000 from the loss before taxation of approximately RMB25,938,000 of the previous year. The restructuring gradual decrease in loss was because the Group has completed the transformation of the sales model and product restructuring, the gross profit and gross margin have increased.

LIQUIDITY AND FINANCIAL RESOURCES

The Company usually 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 2007, the Group's bank and cash balance was approximately RMB38,650,000, while it was approximately RMB36,963,000 as at 31 December 2006. As at 31 December 2007, the Group's bank facilities debt was RMB157,000,000, of which RMB127,000,000 was long-term bank borrowings. In addition, the Group's controlling shareholder's entrusted loans were 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 "Loan Project"). Pursuant to the CDB 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 CDB Loan. The Company would apply the revenue obtained from the Project to repay the CDB Loan with CDB by instalments. During the Year, the Company repaid RMB3,000,000 of the Loan Project to CDB in accordance with the repayment date and amount stipulated in the CDB Loan Agreement.

On 26 March 2007, the Company entered into an "Entrusted Loan Contract" with the Industrial Bank and an independent third party involving an amount of RMB30,000,000 (the "Entrusted Loan"), which needs to be repaid on 26 March 2008. Originally, the Company planned to apply the Company's proceeds from the additional issue of H shares to such repayment. As the time schedule for the completion of the additional issue of H shares is after the due date of the Entrusted Loan, Neptunus Bio-engineering, the Company's parent company, has signed a new "Entrusted Loan Contract" for a term of 1 year with the Industrial Bank and repaid the abovementioned Entrusted Loan of RMB30,000,000 to the Industrial Bank on behalf of the Company on the abovementioned due date of the Entrusted loan. The Company has not provided Neptunus Bio-engineering any security over its assets to secure the new entrusted loan. Upon completion of the additional issue of H shares, the Company shall repay RMB30,000,000 to Neptunus Bio-engineering. The calculation of the loan interests under the new "Entrusted Loan Contract" shall make reference to the commercial bank loan rate for the same period.

CDB LOAN AGREEMENT AND ENTRUSTED 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 has 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, during the term of the CDB Loan, such Guarantee Agreement and Agreement on Pledge of Shares shall remain valid and that Neptunus Bio-engineering will not be in breach of any provision of the CDB Loan Agreement and that regarding the financial standing and the pledged property of Neptunus Bio-engineering, no event that would prejudice the interests of CDB occurs . 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 set 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 an undertaking letter regarding restricting dividend distribution 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 as 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 in 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 make up for the CDB 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 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.

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 shareholder's entrusted loans 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 the abovementioned financial assistance and the abovementioned financial assistance is on normal commercial terms (or better to the Company). The above connected transctions 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, 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 in 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 make up for the CDB Loan. The Company received a notice from Mr. Chai Xiang Dong regarding the aforesaid pledge of shares 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, 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 and Mr. Chai Xiang Dong shall within 10 days complete all procedure 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 a provision of 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 connection transaction is therefore an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules.

Shareholder's Entrusted Loans

The shareholder's entrusted loan amounted to RMB9,000,000. The calculation of loan interests shall make reference to the commercial bank loan rate for the same period. But the interest is waived for the Year. The entrusted loan 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. The due date of this shareholder's entrusted loan is on 5 April 2009, but the controlling shareholder of the Company has undertaken to the Company that it would not demand repayment of the abovementioned entrusted loan unless and until: (1) the repayment of such shareholder's entrusted 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 entrusted 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 entrusted 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 make reference to the commercial bank loan rate for the same period, to be repaid together with the principal upon maturity.

Gearing ratio

As at 31 December 2007, the gearing ratio of the Group was approximately 62% (2006: 43%) and was calculated by a division of the total borrowings of approximately RMB205,000,000 (2006: 130,000,000) by total capital of approximately RMB267,807,000 (2006: 215,661,000).

Net current assets

As at 31 December 2007, the Group had net current assets of approximately RMB9,064,000. Current assets comprised cash and cash equivalents of approximately RMB38,650,000, trade receivables of approximately RMB3,954,000, amounts due from related parties of approximately RMB4,287,000, inventories of approximately RMB11,912,000, prepayments, deposits and other receivables of approximately RMB2,739,000, pledged deposits of approximately RMB418,000. Current liabilities comprised trade payables of approximately RMB1,402,000, interest-bearing bank borrowings to be repaid within one year of approximately RMB37,000,000, amounts due to related companies of approximately RMB158,000, taxes payable of approximately RMB2,342,000 receipts in advance and other payables of approximately RMB11,994,000. The net current assets of the Group were approximately RMB25,531,000 as at 31 December 2006. The decrease of the net current assets of the Group in the Year was mainly due to the fact that the Group borrowed an entrusted loan of the amount of RMB30,000,000 which was used to pay for the cost of construction of the new influenza vaccine plant in Baoan district.

Pledge of assets

Pursuant to the pledge agreements entered into between the Company and CDB in 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, pursuant 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 16.7% 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. The Directors believe 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.

Management Discussion and Analysis

SEGMENT INFORMATION

Segment revenue and segment results by business and region of the Group for the Year are set out in note 12 to the financial statements.

CAPITAL COMMITMENTS

In order to fulfil the business objectives as stated in the Prospectus, the Company needs to construct new production base and enhance production facilities. As at 31 December 2007, the Company has capital commitments of approximately RMB23,838,000, of which approximately RMB7,708,000 is 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 from the secondary offering by the Company and bank borrowings. The relevant details are set out in note 31 to the financial statements.

CONTINGENT LIABILITY

As at 31 December 2007, 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.

HUMAN RESOURCES

As at 31 December 2007, the Company employed a total of 242 staff (2006: 315). During the Year, the staff costs included directors' remuneration which amounted to approximately RMB14,038,000 (2006: approximately RMB13,529,000). The salaries and fringe benefits of the Company's employees continued to remain at competitive levels, and the employees' incentives were reviewed and determined annually on the basis of the performance of the employees in accordance with the remuneration and bonus policies of the Company. The Company also offered various benefits to its employees.

As at 31 December 2007, the number of employees of the Company categorized by various functions was set out as follows:

	As at 31 December	
	2007	2006
Research and development	19	20
Production	114	144
Quality control	31	32
Sales and marketing	29	58
Administration	49	61
Total	242	315

Compared with 31 December 2006, the number of employees in the sales and marketing division of the Company decreased by 29, whereas the number of employees in the administration division decreased by 12 in the Year. In the production and quality control divisions, the numbers of employees were reduced by 30 and 1 respectively. As the Company had completed transforming its sales model during the Year, most of the branch offices were closed and those employees who were originally employed in such branch offices were retrenched, but so far no labour relations involved would give rise to any legal disputes. Improvements in the productivity of influenza vaccine resulted in a corresponding reduction in the manpower required in the production division. Manpower in the administration division was also reduced under streamlined operations in order to curb the rising administrative expenses, with the normal administrative operations of the Company unaffected.

The Company monitored closely the remuneration and fringe benefits of the employees and rewarded employees in accordance with the Company's business performance. In addition, training and development opportunities for the employees were also provided by the Company.

Directors, Supervisors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Zhang Si Min (張思民), aged 46, 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, the Standing Committee of Shenzhen People's Political Consultative Conference and deputy Director-General of China Health Care Association. Mr. Zhang has obtained a doctor of philosophy in political economics from Nankai University of the PRC. Mr. Zhang was elected a delegate of the eleventh National People's Congress in March 2008.

Mr. Chai Xiang Dong (柴向東), aged 47, 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 in chemistry 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 46, has been the deputy general manager of the Company since January 2002, and is responsible for the Company's new products research and development . In June 2002, she was appointed a Director of the Company. Ms. Wang obtained a doctor's degree in bio-chemistry from the Jilin University of the PRC. She worked at one of the biotech research institutes 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 51, has been appointed a Director of the Company since February 2005, and currently the director and the deputy general manager of Neptunus Bio-engineering responsible 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 63, has been appointed a Director of the Company since November 2006. Mr. Ren has previously served as the deputy Commissioner of National Chinese Medicine Administrative Bureau and the deputy 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's degree in business administration, majoring in Accounting, from the Chinese University of Hong Kong. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants in England. Mr. Yick has more than 25 years of experience in auditing, direct investment, investment banking and corporate advisory services.

Mr. Yick is also an independent non-executive director 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 Hong Kong Stock Exchange. Mr. Yick is also an independent non-executive director and the 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, and of Beijing Centergate Technologies (Holding) Co., Ltd., whose shares are listed on the Shenzhen Stock Exchange in the PRC.

Mr. Poon Ka Yeung (潘嘉陽), aged 41, 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, and he is currently appointed as an honourary institute fellow of the Asia-Pacific Institute of Business of the Chinese University of Hong Kong.

Mr. Lu Sun (魯隼), aged 46, 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 40, has been elected as a supervisor of the Company since June 2002. He received his bachelor degree in economics from Sichuan University of the PRC and he has more than ten years of experience in investment, auditing, finance and accounting.

Mr. Shen Da Kai (沈大凱), aged 43, has been elected as a 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 auditing, finance and accountant.

Mr. Yu Jun (喻軍), aged 37, has been elected as a supervisor of the Company since June 2002. 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 57, has been appointed as the 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 52, 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 45, 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 41, joined the Company in November 1999 and is currently the sales controller responsible for the sales and promotions of Company's products in the domestic market. Ms. Sun holds a bachelor's 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 54, senior engineer, has been the chief engineer of the Company since August 2003, responsible 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, and he further attended various training programs regarding 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 40, obtained a bachelor's 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 of directors and the consolidated financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is a high and new technology enterprise incorporated in the PRC. During the Year 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 vaccines for infectious diseases.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last two financial years up to 31 December 2007, and the published consolidated results and assets and liabilities of the Group for this Year is set out on page 40 to 42.

DIVIDENDS

The Directors do not recommend the distribution of any dividends for the Year (2006: Nil).

COMPARISON BETWEEN THE ACTUAL BUSINESS PROGRESS AND THE BUSINESS OBJECTIVES

The net proceeds from the Company's successful issue of new shares by way of placing for listing on GEM 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 2007 planned use of proceeds as set out in the Prospectus (in HK$ million)	**From the Listing Date to 31 December 2007 Actual use of proceeds (in HK$ million)**
Construction of production base and the enhancement of production facilities	86.5	66

The table below shows a comparison between the business objectives 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 2007		Actual development From the Listing Date to 31 December 2007
Construction of new production base and expansion of production facilities				
Influenza vaccine (leased properties)	–	Formally commence operation in the fourth quarter of 2005	–	Already in operation in the fourth quarter of 2006
Influenza vaccine (Baoan GMP Factory)	–	Obtain GMP certificate for the Baoan GMP Fatory	–	Construction completed,in preliminary preparations for GMP cerification
rhIFNα2b liposome cream	–	Complete construction and obtain GMP certificate	–	Conditions for production not yet fulfilled, GMP application deferred
rhIFNα2b vaginal effervescent tablet	–	Complete construction and obtain GMP certificate	–	In preliminary preparation for GMP cerification
Rabies vaccine	–	Construction of production lines in Baoan Base	–	Pending state approval, construction of production lines delayed
rhIFNα2b buccal tablet	–	Construct production lines and obtain GMP certificate	–	Condition for production not yet fulfilled, construction of production lines deferred
R&D of new products				
Influenza vaccine	–	Launch product on the market by the end of 2005	–	Formal sales commenced in 2007
Rabies vaccine	–	Obtain new medicine certificate and apply for production approval	–	Application for new medicine certificate jointly made with the cooperation party and at the stage of administrative approval
rhIFNα2b buccal tablet	–	Obtain new medicine certificate and apply for production approval	–	Second stage clinical plan was rejected. The Company has proposed for administrative review and has applied for the change of indications. Clinical trial is expected to be deferred.

		Anticipated development From the Listing Date to 31 December 2007		Actual development From the Listing Date to 31 December 2007
rhIFNα2b liposome cream	–	Launch product on the market	–	Application for new medicine certificate in progress
rhIFNα2b vaginal effervescent tablet	–	Launch product on the market	–	Obtained new medicine certificate and production approval
rhNGF	–	Under clinical research	–	Process flow testing being conducted with the cooperation party; drug research on animals activated
rhHSS	–	Under clinical research	–	Pre-clinical research in progress
Expansion of sales network				
Expansion plan	–	Expand sales team for vaccine products	–	Influenza vaccine launched on the market for sale, sales team set up
	–	Apply for medicine registration in more countries	–	Drug registration for rhIFNα2b for injection has been completed in Indonesia and Philippines. Developed businesses with Korea, Taiwan, Thailand, Ukraine, Columbia. Drug registrations are in progress in Mexico, Vietnam, Thailand, Ukraine and Central and South America.

Report of the Directors

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 26 to financial statements.

RESERVES

Details of movements in the reserves of the the Group and Company during the Year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Group had no distributable reserves, while its accumulated loss, calculated in accordance with the Company's Articles of Association and relevant rules and regulations, amounted to RMB38,463,000.

CAPITALIZED INTEREST

Details of capitalized interest of the Group during the Year are set out in note 5(a) 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 REDEMPTION 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, the Company or its subsidiary did not purchase, sell or redeem 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 39.4% of the total sales for the Year and sales to the largest customer included therein amounted to 18.3%. Purchases from the Group's five largest suppliers accounted for 66.0% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 44.0%.

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 terms 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. 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 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 is 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 7 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 EMPLOYEES

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, SUPERVISORS AND CHIEF EXECUTIVES IN THE LISTED SECURITIES

As at 31 December 2007, the interests and short positions of the Directors, supervisors and chief executives 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:

Total long positions in shares of the Company:

Director/Supervisor	Capacity	Type of Interests	Number of domestic shares	Approximate percentage of the domestic shares	Approximate percentage of the Company's share capital
Chai Xiangdong *(Note (1))*	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Wang Yan *(Note (2))*	Beneficial owner	Personal	14,200,000	2.00%	1.50%
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

Total long positions in shares of associated corporations:

Director	Capacity	Type of Interest	Name of associated corporation	Number of shares held in associated corporation	Approximate percentage of shareholding
Zhang Si Min *(Note (a))*	Beneficial owner	Personal	Neptunus Bio-engineering	332,016	0.054%
Zhang Si Min *(Note (b))*	Beneficial owner	Personal	Hong Kong Ankeen Enterprises Limited	15	15%
Yu Lin *(Note(c))*	Beneficial owner	Personal	Neptunus Bio-engineering	73,515	0.012%

Notes:

(a) Mr. Zhang Si Min was interested in approximately 0.054% of the entire share capital of Neptunus Bio-engineering which was the controlling shareholder of the Company and in turn interested in approximately 67.5% of the issued share capital of the Company as at 31 December 2007.

(b) Mr. Zhang Si Min held an approximately 15% interest in the issued capital of Hong Kong 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 interested in approximately 67.5% of the share capital of the Company as at 31 December 2007.

(c) Ms. Yu Lin was interested in approximately 0.012% of the entire issued share capital of Neptunus Bio-engineering which was the controlling shareholder of the Company and in turn interested in approximately 67.5% of the issued share capital of the Company as at 31 December 2007.

Save as disclosed above, as at 31 December 2007, 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 any time during the Relevant Period, none of the Directors or supervisors of the Company or their respective spouse or minor children were granted or executed the right to purchase equity interest of the Company or its subsidiary. Neither the Company, its controlling company, nor any of its fellow subsidiaries participated in any arrangement enabling Directors of the Company to obtain such rights in any other associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, so far as the Directors and supervisors of the Company are aware, any interests and/or short positions in the shares of the Company held by the shareholders (not being a Director, a supervisor or a chief executive of the Company) required to be entered in the register pursuant to section 336 of the SFO were as follows:

Total long positions in shares of the Company:

Name of substantial shareholders	Capacity	Number of domestic shares held	Approximate percentage of the domestic shares	Approximate percentage of the share capital interest
Neptunus Bio-engineering	Beneficial owner	639,000,000	90%	67.5%
Neptunus Group *(Note (a))*	Interest of a controlled corporation	639,000,000	90%	67.5%
Ankeen Enterprises *(Note (b))*	Interest of a controlled corporation	639,000,000	90%	67.5%
Wang Jin Song *(Note (c))*	Interest of a controlled corporation	639,000,000	90%	67.5%
Li Li *(Note (d))*	Spouse interest	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 issued 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 issued 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.

(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 issued share capital of Ankeen Enterprises, which in turn 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 issued 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 hold any shares held by Mr. Chai.

Save as disclosed above, as at 31 December 2007, the Directors and supervisors of the Company were 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.

SHARE OPTION SCHEME

Up to 31 December 2007, 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 from the GEM Listing Rules during the Year are set out as follows:

(i) 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.

(ii) Property lease

Factory

On 31 December 2006, 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 2007 and expiring on 31 December 2007 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 2007, the aggregate rental paid by the Company to Neptunus Pharmaceutical amounted to approximately RMB120,480.

On 31 December 2006, the Company and Shenzhen Neptunus Tongai Pharmaceutical Manufacturing Company Ltd ("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 31 December 2006 and expiring on 31 December 2007 (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 2007 was waived by Tongai Phamaceutical under a waiver agreement dated 30 January 2008.

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.

(iii) Financial assistance

Details of the financial assistance by controlling shareholder and management shareholder are set out under the sections headed "Material related party transactions" in note 30 and "Entrusted loans from immediate parent company" in note 24 to the financial statements.

As the financial assistance was on normal commercial terms and no security over the assets of the Company was granted in respect of the financial assistance, such assistance was 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:

Service Agreement

On 21 August 2005, the Company and Neptunus Pharmaceutical (a related party of the Company), entered into a service agreement for the provision of certain 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 in the factory of Neptunus Pharmaceutical located at the Neptunus Industrial Complex (the "Service Agreement"). On 29 August 2005, the Stock Exchange granted the waiver 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.

Under the Service Agreement, Neptunus Pharmaceutical will provide 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 factory of Neptunus Pharmacertical located at the Neptunus Industrial Complex. Neptunus Pharmaceutical will also provide the Company with other common facilities such as water, electricity, air-conditioning, treatment of sewage and elevator and all the relevant labour and administrative services. Neptunus Pharmaceutical has also undertaken to the Company that Neptunus Industrial Complex together with the lyophilisation machine in it and common facilities will comply with the GMP standards, as 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.

During the Year, the Company has, according to the Service Agreement, paid to Neptunus Pharmaceutical aggregate service fees of approximately RMB1,323,560, accounting for approximately 10.59% of the Company's total production expenses. Such actual service fees paid do not exceed the annual cap granted by the Stock Exchange under the abovementioned waiver.

On 1 January 2007, the Company and Neptunus Pharmaceutical entered into a supplementary service agreement for the provision of certain services by Neptunus Pharmaceutical to the Company for the purpose of assisting the Company in the manufacture of influenza vaccines in the factory located at the Neptunus Industrial Complex (the "Supplementary Service Agreement"). The term of the Supplementary Service Agreement is from 1 January 2007 to 31 December 2007. Pursuant to the terms of the Supplementary Service Agreement, given that the Company does not exercise the right to terminate the Supplementary Service Agreement and is in compliance with the relevant GEM Listing Rules, the Supplementary Service Agreement will be automatically renewed on the same terms for three years upon expiry of the Service Agreement.

Under the Supplementary Service Agreement, Neptunus Pharmaceutical will provide labour to the Company for the manufacture of influenza vaccines at the Neptunus Industrial Complex. Neptunus Pharmaceutical will also provide common facilities such as water, electricity, air-conditioning, treatment of sewage and elevators and all the relevant labor and administrative services. Neptunus Pharmaceutical has also undertaken to the Company that the Neptunus Industrial Complex together with the common facilities in it will comply with the GMP standards, as amended from time to time. The fees payable under the Supplementary Service Agreement, including facilities usage fees, labour fees, energy consumption fees and administrative fees, will be calculated on a cost reimbursement basis by reference to the actual cost incurred in providing related services.

At the time when the Supplemental Service Agreement was entered into on 1 January 2007, the manufacture of influenza vaccines was at a trial stage and the Company did not intend to undergo a large-scale manufacture of influenza vaccines at Neptunus Complex. Therefore, the Board anticipated that the service fees payable by the Company under the Supplemental Service Agreement would not exceed HK$1,000,000. During the Year, the Company has reimbursed Neptunus Pharmaceutical the service fees under the Supplemental Service Agreement in an aggregate amount of RMB 834,440.65 (approximately HK$ 859,804.89). This amount does not exceed the de minimus threshold under Rule 20.33(3) of the GEM Listing Rules and therefore the de minimus exception under Rule 20.33(3) would apply.

Service Agreement and Supplementary Service Agreement expired on 31 December 2007 and have been renewed for 3 years on the same terms. The Directors are of the opinion that the Company has renewed Service Agreement and Supplement Service Agreement to ensure obtaining the services required for the manufacture of rhIFN α2b for injection, rhIL-2 (125 Ser) for injection and influenza vaccines at the Neptunus Industrial Complex which complies with the GMP standards and this is to the best interest of the Company. Further, the use of ancillary services provided by Neptunus Pharmaceutical may allow the Company to use its resources in a more effective manner.

The Company has made an announcement to disclose the annual cap of the above continuing connected transaction for the three years ending 31 December 2008, 2009 and 2010. For each of the three years ending 31 December 2008, 2009 and 2010, the total estimated annual service fee payable by the Company in accordance with the Service Agreement and the Supplementary Service Agreement to Neptunus Pharmaceutical will not exceed RMB2,497,500 (approximately HK$2,707,904.15), RMB1,940,000 (approximately HK$2,103,437.06) and RMB2,072,000 (approximately HK$2,246,557.52) respectively. In respect of these three types of products, the estimated annual service fee payable by the Company to Neptunus Pharmaceutical in 2008, 2009 and 2010 will represent approximately 22.5%, 22.5% and 22.5% of the estimated total production cost of the Company respectively.

The Directors also consider the above service agreements signed between the Company and Neptunus Pharmaceutical to be 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 the above continuing connected transactions entered into by the Company and confirmed that the same 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 or the caps as disclosed in the Company's announcement in relation to the continuing connected transactions (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 were 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 during 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 31 December 2007, 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 5 to the financial statements.

AUDITORS

Previously, the auditors of the Company was Ernst & Young ("EY"). EY tendered its resignation on 25 July 2007 and CCIF CPA Limited was appointed by the Board as the auditors of the Company to fill the casual vacancy on 8 August 2007. A resolution for the re-appointment of CCIF CPA Limited 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

29 March 2008

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 2007, the Board comprised eight 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. And 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 pages 14 to 16. 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*	5/5
Chai Xiang Dong	*Executive Director, General Manager*	5/5
Wang Yan	*Executive Director, deputy General Manager*	5/5
Yu Lin	*Non-executive Director*	5/5
Ren De Quan	*Non-executive Director*	4/5
Yick Wing Fat, Simon	*Independent non-executive Director*	5/5
Poon Ka Yeung	*Independent non-executive Director*	5/5
Lu Sun	*Independent non-executive Director*	5/5

(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 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) making 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*	2/2

(f) NOMINATION OF DIRECTORS

No Nomination Committee was established by the Company. Eligible 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.

(g) AUDITORS' REMUNERATION

An amount of approximately RMB1,588,000 (2006: 1,099,000) was charged to the Company's income statement for the Year as follows:

Services rendered	**Fee paid / payable Approximately** RMB
Audit services (2006: approximately RMB1,099,000)	1,053,000
Other services	535,000
Total:	1,588,000

(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 to resolve any issues of resignation or dismissal of that auditor;

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

(iii) to discuss the nature and scope of the audit and reporting obligations with the external auditors before the auditing commences, and to ensure co-ordination where more than one audit firm are 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 therein, 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 control, 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 duties in maintaining an effective internal control system;

(vii) to review the external auditors' management letter and answer 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 overseeing the Company's relationship 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 the Year to discuss matters relating to the accounting standards and practices adopted by the Company, internal control and financial reporting matters, etc., including the review of 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 the importance of a sound internal control system. The Company's system of internal control is designed to provide reasonable assurance against any 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 to 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

When preparing for the financial report, the Directors have considered the impact to the Group's existing and anticipated future liquidity, and whether the Group is able to operate business which can earn profits and bring positive cashflow both at present and in the long run.

In order to consolidate the Group's capital basis and improve the Group's financial situation, liquidity and cashflow in the near future for the Group's going concern, the Directors have adopted the following measures:

(a) In June 2007, the Company has applied for the proposed issue of not exceeding 189,334,000 new Shares and the Placing of H Shares of not exceeding HK$170,000,000 and the approval is under process.

(b) On 26 March 2007, the Company entered into an "Entrusted Loan Contract" with the Industrial Bank and an independent third party involving an amount of approximately RMB30,000,000, which needs to be repaid on 26 March 2008. Originally, the Company planned to apply the Company's proceeds from the additional issue of H shares to such repayment. As the time schedule for the completion of the additional issue of H shares is after the due date of the Entrusted Loan, Neptunus Bio-engineering, the Company's parent company, has signed a new "Entrusted Loan Contract" of a term of 1 year with the Industrial Bank and repaid the abovementioned Entrusted Loan of RMB30,000,000 to the Industrial Bank on behalf of the Company on the abovementioned due date of the Entrusted Loan. The Company has not provided Neptunus Bio-engineering any security over its assets to secure the new entrusted loan. Upon completion of the additional issue of H shares, the Company shall repay RMB30,000,000 to Neptunus Bio-engineering. The calculation of the loan interests under the new "Entrusted Loan Contract" shall make reference to the commercial bank loan rate for the same period.

(c) On 18 March 2008, Neptunus Bio-engineering has undertaken to the Company that, during 2008, in the event that the Group has insufficient working capital to satisfy its current needs, it shall provide appropriate financial aid to satisfy the Company's going concern in 2008.

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 Hong Kong 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 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 or 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 Supervisory Committee
Feng Jia Xin
Chairman of Supervisory Committee

Shenzhen, the PRC
29 March 2008

INDEPENDENT AUDITOR'S REPORT

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

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 consolidated financial statements of Shenzhen Neptunus Interlong Bio-technique Company Limited (the "Company") set out on pages 40 to 100, which comprise the consolidated and Company balance sheets as at 31 December 2007 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This 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 the 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.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 auditor considers 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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 1(b) 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 shareholders of the Company of RMB21,167,000 and net cash used in operating activities of RMB32,054,000 during the year. In addition, as further disclosed in note 31(a) to the financial statements, as at 31 December 2007, the Group had contracted commitments in respect to future capital expenditure of approximately RMB23,838,000. 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.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2008

Betty P. C. Tse
Practising Certificate Number P03024

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TURNOVER	3,12	**16,160**	20,181
COST OF SALES		**(5,103)**	(7,697)
GROSS PROFIT		**11,057**	12,484
OTHER INCOME	4	**3,347**	1,606
Selling and distribution expenses		**(3,897)**	(11,002)
Administrative expenses		**(17,088)**	(12,514)
Other operating expenses		**(12,270)**	(13,494)
LOSS FROM OPERATIONS		**(18,851)**	(22,920)
Finance costs	5(a)	**(2,541)**	(3,018)
LOSS BEFORE TAXATION	5	**(21,392)**	(25,938)
Income tax	6(a)	**225**	(29)
LOSS FOR THE YEAR		**(21,167)**	(25,967)
Loss attributable to:			
Equity shareholders of the Company		**(21,167)**	(25,967)
Dividends payable to equity shareholders of the Company attributable to the year:	10	**—**	—
Loss per share	11		
Basic		**RMB(2.24) cents**	RMB(2.74) cents
Diluted		**—**	—

The notes on pages 48 to 100 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**224,361**	183,468
Interest in leasehold land held for own use under operating lease	14	**8,615**	8,796
Intangible assets	15	**23,835**	28,820
Prepayments for purchase of technical know-how	16	**6,573**	6,573
Deferred tax assets	23	**450**	225
		263,834	227,882
CURRENT ASSETS			
Inventories	18	**11,912**	2,322
Trade and other receivables	19	**6,693**	4,221
Due from related parties	30	**4,287**	1,933
Pledged deposits	20	**418**	4,033
Cash and cash equivalents	20	**38,650**	36,963
		61,960	49,472
CURRENT LIABILITIES			
Trade and other payables	21	**13,396**	9,544
Interest-bearing bank borrowings	22	**37,000**	3,000
Due to related parties	30	**158**	9,000
Tax payable	23	**2,342**	2,397
		(52,896)	(23,941)
NET CURRENT ASSETS		**9,064**	25,531

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**272,898**	253,413
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**120,000**	127,000
Entrusted loans from immediate parent company	24	**48,000**	—
Deferred revenue	25	**3,441**	3,789
		(171,441)	(130,789)
NET ASSETS		**101,457**	122,624
CAPITAL AND RESERVES			
Share capital	26	**94,667**	94,667
Reserves	27	**6,790**	27,957
TOTAL EQUITY		**101,457**	122,624

Approved and authorised for issue by the board of directors on 29 March 2008

Zhang Si Min
Director

Chai Xiang Dong
Director

The notes on pages 48 to 100 form part of these financial statements.

BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**224,361**	183,468
Interest in leasehold land held for own use under operating lease	14	**8,615**	8,796
Intangible assets	15	**23,835**	28,820
Investment in a subsidiary	17	**1,040**	1,040
Prepayments for purchase of technical know-how	16	**6,573**	6,573
Deferred tax assets	23	**450**	225
		264,874	228,922
CURRENT ASSETS			
Inventories	18	**11,912**	2,322
Trade and other receivables	19	**6,693**	4,221
Due from related parties	30	**4,287**	1,933
Pledged deposits	20	**418**	4,033
Cash and cash equivalents	20	**38,447**	36,771
		61,757	49,280
CURRENT LIABILITIES			
Trade and other payables	21	**13,362**	9,544
Interest-bearing bank borrowings	22	**37,000**	3,000
Due to related parties	30	**158**	9,000
Due to a subsidiary	17	**292**	716
Tax payable	23	**2,342**	2,397
		(53,154)	(24,657)
NET CURRENT ASSETS		**8,603**	24,623

BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**273,477**	253,545
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**120,000**	127,000
Entrusted loans from immediate parent company	24	**48,000**	—
Deferred revenue	25	**3,441**	3,789
		(171,441)	(130,789)
NET ASSETS		**102,036**	122,756
CAPITAL AND RESERVES			
Share capital	26	**94,667**	94,667
Reserves	27	**7,369**	28,089
TOTAL EQUITY		**102,036**	122,756

Approved and authorised for issue by the board of directors on 29 March 2008

Zhang Si Min
Director

Chai Xiang Dong
Director

The notes on pages 48 to 100 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2007

	Attributable to equity shareholders of the Company				
	Share capital RMB'000 *(Note 26)*	Share premium account RMB'000 *(Note 27)*	Statutory reserve fund RMB'000 *(Note 27)*	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2006	94,667	41,923	3,330	8,671	148,591
Loss for the year	—	—	—	(25,967)	(25,967)
At 31 December 2006	94,667	41,923	3,330	(17,296)	122,624
Loss for the year	—	—	—	(21,167)	(21,167)
At 31 December 2007	94,667	41,923	3,330	(38,463)	101,457

The notes on pages 48 to 100 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(21,392)**	(25,938)
Adjustments for:		
Depreciation	**4,666**	3,821
Amortisation of interest in leasehold land held for own use under operating lease	**181**	181
Amortisation of intangible assets	**3,004**	2,185
Impairment of intangible assets	**2,096**	1,403
Recovery of doubtful debts	**(2,015)**	—
Finance costs	**2,541**	3,018
Interest income	**(800)**	(541)
Loss on disposal of items of property, plant and equipment	**—**	453
Operating loss before changes in working capital	**(11,719)**	(15,418)
(Increase)/decrease in inventories	**(9,590)**	1,193
(Increase)/decrease in trade and other receivables	**(457)**	21,139
(Increase)/decrease in due from related parties	**(2,354)**	1,806
Increase in trade and other payables	**3,852**	2,946
Decrease in due to related parties	**(8,842)**	(2,016)
Decrease in deferred revenue	**(348)**	(512)
	(17,739)	24,556
Cash (used in)/generated from operations	**(29,458)**	9,138
Income tax paid	**(55)**	(627)
Interest paid	**(2,541)**	(3,018)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(32,054)**	5,493
INVESTING ACTIVITIES		
Payment for the purchase of property, plant and equipment	**(45,559)**	(100,580)
Payment for technical know-how	**—**	(22,309)
Payment for other intangible assets	**(115)**	(168)
Decrease in pledged bank deposits	**3,615**	4,312
Decrease of prepayment for purchase of technical know-how	**—**	11,070
Interest received	**800**	541
Net cash used in investing activities	**(41,259)**	(107,134)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES		
Proceeds from new bank loans	**30,000**	155,000
Repayment of bank loans	**(3,000)**	(80,000)
Entrusted loans from immediate parent company	**48,000**	—
NET CASH GENERATED FROM FINANCING ACTIVITIES	**75,000**	75,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1,687**	(26,641)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**36,963**	63,604
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**38,650**	36,963

The notes on pages 48 to 100 form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiary (the "Group") is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Group incurred a loss attributable to equity shareholders of the Company of RMB21,167,000 (2006: RMB25,967,000) and net cash used in operating activities of RMB32,054,000 (2006: net cash generated from operating activities of RMB5,493,000). In addition, as further disclosed in note 31(a) to the financial statements, as at 31 December 2007, the Group has contracted commitments for future capital expenditure of approximately RMB23,838,000 (2006: RMB51,225,000).

In preparing these financial statements, the directors of the Company have given careful 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 have adopted the following measures.

Subsequent to the balance sheet date, the Group obtained a financial support letter from its immediate parent that:

i) The immediate parent company will provide an entrusted loan of RMB30,000,000 to the Group (the "New Entrusted Loan") to repay the Group's entrusted loan arranged between the Company and a bank and an independent third party (the "Original Entrusted Loan") which was due in March 2008. This New Entrusted Loan will bear an annual interest of 7.47% and the Group shall repay the New Entrusted Loan within 15 working days after the completion of the Group's fund raising, if any, to be done in the future. The Original Entrusted Loan of RMB30,000,000 was replaced by the New Entrusted Loan of the same amount on 26 March 2008.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

ii) In addition to (i) the immediate parent company has indicated its intention, by way of a financial support letter, to provide further financial support amounting RMB30,000,000 to the Group if necessary. The financial assistance will be given in the form of an entrusted loan. The repayment term of the entrusted loan will be more than I year, and the interest rate will not be higher than market interest rate.

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 classify 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.

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiary.

The measurement basis used in the preparation of the financial statement is historical cost basis. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) SUBSIDIARIES

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiary, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet with equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), unless the investment is classified as held for sale.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(h)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value of 10% on cost, using the straight line method over their estimated useful lives as follows:

– buildings situated on leasehold land are depreciated on a straight-line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;

– other fixed assets are depreciated on a straight-line method over their estimated useful lives as follows:

	Useful life
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

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 capitalized 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with a resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 1(h)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(h)).

Other investments in securities are classified as available-for-sale securities and measured at cost less accumulated impairment losses (see note 1(h)) at each balance sheet date because the range of reasonable fair value estimates is so significant that the fair value cannot be measured reliably.

Investments are recognised/derecognised when the rights to receive cash flows from the investments have been transferred and all the risks and rewards of ownership of the investments have transferred substantially or they expired.

f) INTANGIBLE ASSETS

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs (after netted off by directly related subsidies), where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(h)). Expenditure on internally developed goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Technical know-how	10 years
– Computer software	5 years
– Trademark	10 years

Both the period and method of amortisation are reviewed annually.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) *Classification of assets leased to the Group*

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(d). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(h). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

iii) *Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) IMPAIRMENT OF ASSETS

i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiary: see note 1 (h)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale equity securities, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) IMPAIRMENT OF ASSETS (continued)

i) *Impairment of investments in equity securities and other receivables* (continued)

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– interest in leasehold land held for own use under opeating lease;

– intangible assets; and

– investments in subsidiary (except for those classified as being held for sale).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) IMPAIRMENT OF ASSETS (continued)

ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 1(h)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) INVENTORIES

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

j) DEBTORS, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Debtors, other receivables, deposits and prepayments are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 1(h)).

k) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

l) CREDITORS, OTHER PAYABLES AND ACCRUED EXPENSES

Creditors, other payables and accrued expenses are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

m) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) EMPLOYEE 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 recognised in profit or loss as they become payable in accordance with the rules of the CPS.

o) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary difference, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiary to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) INCOME TAX (continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends are recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

p) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

iii) *Government subsidies*

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" below.

r) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) BORROWING COSTS

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as, after net off with directly related government subsidy (see note 1(v)), being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

t) RELATED PARTIES

For the purpose of these financial statements, parties are considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

v) 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 or deducted directly to related borrowing cost (see note 1 (s)) 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, it is presented as deferred revenue 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.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of Financial Statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 29.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 27(d).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

3. TURNOVER

The principal activities of the Group are research and development of modern biological technology, production and sales of cytokine therapeutic drugs and production of vaccines for infectious disease in the People's Republic of China (the "PRC").

Turnover represents the net invoiced value of goods sold net of value-added tax after allowances for returns and trade discounts.

	2007	2006
	RMB'000	RMB'000
Sales of medicines	**16,160**	20,181

4. OTHER INCOME

	2007	2006
	RMB'000	RMB'000
Interest income on bank deposits	**800**	541
Subsidy income released from deferred revenue – note 25	**348**	512
Recovery on doubtful debts*	**2,015**	—
Others	**184**	553
	3,347	1,606

* During the year, the Group engaged an independent third party for the collection of long outstanding trade receivables. The third party succeeded in recovering approximately RMB2,015,000 (2006: Nil) for the Group.

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

	2007	2006
	RMB'000	RMB'000
a) Finance costs:		
Interest on bank advances wholly repayable within five years	**1,490**	4,568
Interest on bank advances wholly repayable after five years	**8,967**	2,443
Interest on other bank advances	**—**	20
Interest on loans from the immediate parent company	**1,443**	—
	11,900	7,031
Less: Government grant for compensation of loan interest expenses*	**(6,000)**	(3,546)
	5,900	3,485
Less: Interest capitalised as cost of construction in progress	**(3,359)**	(467)
	2,541	3,018

* During the year ended 31 December 2007, the Group received a grant of RMB6,000,000 (2006: RMB3,546,000) from Shenzhen Bureau of Finance and Shenzhen Bureau of Trade and Industry to subsidise interest, arising from loan borrowed by the Group for improvement of those plant for the production of influenza vaccine, incurred by the Company during the current year. The subsidies were made to selected companies in Shenzhen to encourage companies to improve their production technology in different industries. The subsidy granted is unconditional and not repayable and there was no unfulfilled conditions and other contingencies attaching to such grant that has not been recognised.

5. LOSS BEFORE TAXATION (continued)

Loss before taxation is arrived at after charging/(crediting) the following: (continued)

		2007 RMB'000	2006 RMB'000
b)	Staff costs:		
	Contributions to defined contribution retirement plans	**845**	702
	Salaries, wages and other benefits (include directors' remuneration)	**11,054**	10,108
		11,899	10,810
c)	Other items:		
	Amortisation		
	– interest in leasehold land held for own use under operating lease *	**181**	181
	– intangible assets	**3,004**	2,185
	Depreciation		
	– assets held for use under operating leases	**376**	84
	– other assets	**4,290**	3,737
	Impairment of		
	– intangible assets**	**2,096**	1,403
	– trade receivables**	**—**	768
	Write down to net realisable value of inventories*	**—**	1,373
	Write-off of obsolete inventories*	**—**	466
	Write-off of trade receivables	**1,405**	138
	Foreign exchange differences, net	**95**	352
	Loss on disposal of items of property, plant and equipment	**—**	453
	Auditors' remuneration		
	– audit fee	**1,053**	1,099
	– other services	**535**	—
	Minimum lease payments under operating leases in respect of land and buildings	**806**	896
	Cost of inventories sold	**5,103**	5,331
	Research and development costs**	**8,423**	6,861

* These amount are included in "Cost of Sales" on the face of the consolidated income statement.

** These amount are included in "Other Operating Expenses" on the face of the consolidated income statement.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) Income tax in the consolidated income statement represents:

	2007	2006
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax	**—**	—
Deferred tax		
Origination and reversal of temporary differences (note 23(b))	**225**	(29)
	225	(29)

Hong Kong Profits Tax has not been provided for as the Group has no income assessable to Hong Kong Profits Tax.

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

The corporate income tax for both years is 7.5%. The corporate income tax has not been provided for as the Group has incurred loss for the year.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January 2008. For the company which was subject to a corporate income tax at a rate of 15% on its assessable profits arising in the PRC, effective on 1 January 2008, the tax rate will increase eventually to 25% in 2012.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

b) Reconciliation between tax expense and accounting loss at the applicable tax rates:

	2007	2006
	RMB'000	RMB'000
Loss before taxation	**(21,392)**	(25,938)
Notional tax on loss before taxation, calculated at the rates applicable to profits on the tax jurisdictions concerned	**(7,059)**	(8,560)
Lower tax rate for specific provinces or local authority	**5,455**	6,581
Tax effect of non-deductible expenses	**752**	478
Tax effect of non-taxable income	**(177)**	(40)
Tax effect of unused tax losses not recognised	**1,254**	1,512
Tax credit/(charge)	**225**	(29)

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year ended 31 December 2007 disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**2007 Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Zhang Si Min	100	—	—	—	100
Mr. Chai Xiang Dong	—	603	—	10	613
Ms. Wang Yan	—	414	—	6	420
Non-executive directors					
Mr. Shao Chun Jie	—	—	—	—	—
Ms. Yu Lin	100	—	—	—	100
Mr. Ren De Quan	200	—	—	—	200
Independent non-executive directors					
Mr. Lu Sun	106	—	—	—	106
Mr. Yick Wing Fat, Simon	212	—	—	—	212
Mr. Poon Ka Yeung	106	—	—	—	106
	824	1,017	—	16	1,857

7. DIRECTORS' REMUNERATION (continued)

Directors' remuneration for the year ended 31 December 2006 disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2006 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Zhang Si Min	100	—	—	—	100
Mr. Chai Xiang Dong	—	500	—	10	510
Ms. Wang Yan	—	375	—	8	383
Non-executive directors					
Mr. Shao Chun Jie	75	—	—	—	75
Ms. Yu Lin	100	—	—	—	100
Mr. Ren De Quan	33	—	—	—	33
Independent non-executive directors					
Mr. Lu Sun	106	—	—	—	106
Mr. Yick Wing Fat, Simon	212	—	—	—	212
Mr. Poon Ka Yeung	106	—	—	—	106
	732	875	—	18	1,625

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2006: two) were directors of the Company whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining three (2006: three) individuals were as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other benefits	**1,151**	975
Retirement schemes contribution	**27**	25
	1,178	1,000

Their emoluments were all within the band RMBNil to RMB1,000,000.

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB20,720,000 (2006: RMB25,835,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

The directors did not propose the payment of any dividend for the year ended 31 December 2007 and 2006 in view of the losses for the respective year.

11. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB21,167,000 (2006: RMB25,967,000) and the weighted average number of 946,670,000 ordinary shares (2006: 946,670,000 ordinary shares) in issue during the year.

b) Diluted loss per share

Diluted loss per share for the year ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during the years.

12. SEGMENT REPORTING

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

Year ended 31 December 2007

	PRC RMB'000	**Pakistan RMB'000**	**Others* RMB'000**	**Total RMB'000**
Segment revenue:				
Sales to external customers	**13,346**	**2,430**	**384**	**16,160**
Cost of sales	**(4,312)**	**(767)**	**(24)**	**(5,103)**
Gross profit	**9,034**	**1,663**	**360**	**11,057**

Year ended 31 December 2006

	PRC 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

* Others included Indonesia and Hong Kong.

13. PROPERTY, PLANT AND EQUIPMENT

a) 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
At cost :						
At 1 January 2007	9,105	33,300	2,215	8,386	141,937	194,943
Additions	—	204	—	184	45,171	45,559
Transfer in/(out)	13,941	310	—	56	(14,307)	—
At 31 December 2007	23,046	33,814	2,215	8,626	172,801	240,502
Accumulated depreciation:						
At 1 January 2007	(84)	(7,758)	(768)	(2,865)	—	(11,475)
Charge for the year	(376)	(3,006)	(362)	(922)	—	(4,666)
At 31 December 2007	(460)	(10,764)	(1,130)	(3,787)	—	(16,141)
Carrying amount:						
At 31 December 2007	22,586	23,050	1,085	4,839	172,801	224,361

13. PROPERTY, PLANT AND EQUIPMENT (continued)

a) The Group and the Company (continued)

	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
At cost :						
At 1 January 2006	—	18,902	1,212	5,651	71,529	97,294
Additions	—	1,189	1,003	267	98,121	100,580
Disposals	—	(2,040)	—	(891)	—	(2,931)
Transfer in/(out)	9,105	15,249	—	3,359	(27,713)	—
At 31 December 2006	9,105	33,300	2,215	8,386	141,937	194,943
Accumulated depreciation:						
At 1 January 2006	—	(6,872)	(441)	(2,819)	—	(10,132)
Charge for the year	(84)	(2,685)	(327)	(725)	—	(3,821)
Written back on disposal	—	1,799	—	679	—	2,478
At 31 December 2006	(84)	(7,758)	(768)	(2,865)	—	(11,475)
Carrying amount:						
At 31 December 2006	9,021	25,542	1,447	5,521	141,937	183,468

During the year, netted borrowing costs, after deducting government subsidy of RMB6,000,000 (2006: RMB3,546,000), capitalized amounted to approximately RMB3,359,000 (2006: RMB 467,000). Such costs were related to funds borrowed specifically for the purpose of the above construction-in-progress. Funds borrowed for other purpose were not used to finance this construction-in-progress.

The Group's buildings, equipments and construction-in-progress and interest in leasehold land held for own use under operating lease have been pledged to secure the Group's bank loan of RMB127,000,000 (2006: RMB130,000,000) (note 22).

The recoverable amount of the property, plant and equipment has been assessed based on depreciated replacement cost model performed by an independent professional valuer – RHL Appraisal Limited.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

b) The analysis of carrying amount of properties is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Outside Hong Kong:		
- medium-term leases	**31,201**	17,817
Representing:		
Buildings carried at cost	**22,586**	9,021
Interest in leasehold land held for own use under operating lease	**8,615**	8,796
	31,201	17,817

14. INTEREST IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
At cost :		
At 1 January and 31 December	**9,037**	9,037
Accumulated amortisation:		
At 1 January	**(241)**	(60)
Charge for the year	**(181)**	(181)
At 31 December	**(422)**	(241)
Carrying amount:		
At 31 December	**8,615**	8,796

The interest in leasehold land held for own use under operating lease was valued as at 31 December 2007 at their open market value by direct comparison method where comparison based on price realised on actual sales of comparable property is made. The valuations were carried out by RHL Appraisal Limited.

15. INTANGIBLE ASSETS

The Group and the Company

	Technical know-how					
	Internally developed	Acquired	Sub-total	Computer software	Trademark	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2007	23,001	13,070	36,071	239	75	36,385
Acquired from third parties	—	—	—	115	—	115
	23,001	13,070	36,071	354	75	36,500
Accumulated amortisation and impairment						
At 1 January 2007	(7,048)	(436)	(7,484)	(62)	(19)	(7,565)
Charge for the year	(1,627)	(1,307)	(2,934)	(63)	(7)	(3,004)
Impairment for the year	(2,096)	—	(2,096)	—	—	(2,096)
At 31 December 2007	(10,771)	(1,743)	(12,514)	(125)	(26)	(12,665)
Carrying amount						
At 31 December 2007	12,230	11,327	23,557	229	49	23,835

15. INTANGIBLE ASSETS (continued)

The Group and the Company (continued)

	Technical know-how					
	Internally developed	Acquired	Sub-total	Computer software	Trademark	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2006	13,762	—	13,762	71	75	13,908
Acquired from third parties	—	13,070	13,070	168	—	13,238
Addition through internal development	9,239	—	9,239	—	—	9,239
	23,001	13,070	36,071	239	75	36,385
Accumulated amortisation and impairment						
At 1 January 2006	(3,941)	—	(3,941)	(24)	(12)	(3,977)
Charge for the year	(1,704)	(436)	(2,140)	(38)	(7)	(2,185)
Impairment for the year	(1,403)	—	(1,403)	—	—	(1,403)
At 31 December 2006	(7,048)	(436)	(7,484)	(62)	(19)	(7,565)
Carrying amount						
At 31 December 2006	15,953	12,634	28,587	177	56	28,820

The amortisation charge for the year is included in "direct costs" and "operating expenses" in the consolidated income statement.

* Except for technical know-how amounting to approximately RMB12,230,000 (2006: RMB 15,953,000), which was internally developed by the Group, all other intangible assets were acquired from third parties. The Group's titles to these intangible assets are not restricted and they are not pledged as securities for liabilities.

All the above intangible assets are assessed as having definite useful lives.

The major technical know-how is the influenza vaccine RMB18,595,000 (2006: RMB20,808,000) and the remaining amortisation period is 8 years (2006: 9 years).

The recoverable amount of the technical know-how has been assessed based on a value in use calculation performed by an independent professional valuer – RHL Appraisal Limited. Based on this assessment, the carrying amount of the technical know-how was written down by RMB2,096,000 (included in "Other Operating Expenses").

16. PREPAYMENTS FOR PURCHASE OF TECHNICAL KNOW-HOW

The prepayment for purchase of technical know-how mainly relates to Vero Rabies Purified Vaccine of approximate RMB6.4 million (2006: RMB6.4 million). The vaccine is still in the clinical trial stage.

The recoverable amount of the technical know-how has been assessed based on a value in use calculation performed by an independent professional valuer – RHL Appraisal Limited. Based on this assessment, amount of prepayments for purchases of technical know-how was not impaired.

17. INVESTMENT IN A SUBSIDIARY

	2007 **RMB'000**	2006 RMB'000
Unlisted shares at cost	**1,040**	1,040
Amount due to a subsidiary	**(292)**	(716)
	748	324

Amount due to a subsidiary is unsecured, interest free and not expected to be recovered within one year.

The following list contains the particulars of the subsidiary of the Group. The class of shares held is ordinary.

Name of company	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Interest held by the Company directly**	**Principal activity**
Ascendent Bio-Technology Company Limited	Hong Kong	HK$10,000	100%	Trading of medicines

18. INVENTORIES

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Raw materials	**836**	576
Work in progress	**4,914**	1,382
Finished goods	**6,162**	364
	11,912	2,322

The carrying amount of inventories carried at fair value less costs to sell is RMB Nil (2006: RMB1,373,000 approximately).

19. TRADE AND OTHER RECEIVABLES

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Trade receivables	**10,038**	12,353
Less: allowance for doubtful debts	**(6,084)**	(9,504)
	3,954	2,849
Prepayments	**989**	649
Other receivables	**1,750**	723
	6,693	4,221

All of the trade and other receivables are expected to be recovered within one year.

19. TRADE AND OTHER RECEIVABLES (continued)

a) Ageing analysis

Included in trade and other receivables are trade receivables net of allowance for doubtful debts of RMB6,084,000 (2006: RMB9,504,000) with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	RMB'000	RMB'000
Within 3 months	**813**	580
More than 3 months but less than 12 months	**891**	2,163
Over 12 months	**2,250**	106
	3,954	2,849

b) Impairment of trade receivables

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the debts are directly impaired by the impairment loss. (see note 1(h)).

Movements in the allowance for doubtful debts

	The Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**9,504**	8,874
Impairment loss recognised (note i)	**—**	768
Recovery on doubtful debts (note ii)	**(2,015)**	—
Uncollectible amounts written off (note iii)	**(1,405)**	(138)
At 31 December	**6,084**	9,504

Note:

i) These individually impaired receivables were outstanding for over 180 days as at the balance sheet date or were due from companies with financial difficulties.

ii) During the year, the Company entered into a contract with the independent third party for the collection of long outstanding trade receivables. The third party succeeded in recovering the long outstanding debts for the Company.

iii) RMB1,405,000 of the trade receivable previously provided for was written off in 2007.

Trade receivables are due within 90 days from the date of billing. Further details on the Group's credit policy is set out in note 29(a).

19. TRADE AND OTHER RECEIVABLES (continued)

c) Trade receivables that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	**813**	580
3 to 6 months past due	**883**	1,059
Over 12 months past due	**2,250**	106
	3,946	1,745

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged deposits	**418**	4,033	**418**	4,033
Cash at bank and on hand	**38,650**	36,963	**38,447**	36,771
	39,068	40,996	**38,865**	40,804
Less: Pledged for issuance of guarantee letters for constructions	**(418)**	(4,033)	**(418)**	(4,033)
Cash and cash equivalents in the consolidated balance sheet and the consolidated cashflow statement	**38,650**	36,963	**38,447**	36,771

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For the year ended 31 December 2007

20. CASH AND CASH EQUIVALENTS (continued)

Included in "Cash and cash equivalents" in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
US Dollars	**USD —**	USD 13	**USD —**	USD 1
Hong Kong Dollars	**HKD 133**	HKD —	**HKD 17**	HKD —

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**1,402**	1,260	**1,402**	1,260
Other payables	**11,994**	8,284	**11,960**	8,284
Financial liabilities measured at amortised cost	**13,396**	9,544	**13,362**	9,544

The following is an ageing analysis of trade payables as at the balance sheet date, based on the invoice date:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Within 3 months	**311**	570
4 to 6 months	**341**	337
7 to 12 months	**292**	218
Over 1 year	**458**	135
	1,402	1,260

22. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	The Group and the Company 2007 RMB'000	2006 RMB'000
Current portion of:				
Short term bank loan – unsecured	6.39%	2008	**30,000**	—
Long term bank loan – secured	6.39%	2014	**7,000**	3,000
			37,000	3,000
Non-current portion of:				
Bank loan – secured	6.39%	2014	**120,000**	127,000
			157,000	130,000

At 31 December 2007 the interest-bearing bank borrowings were repayable as follows:

	The Group and the Company 2007 RMB'000	2006 RMB'000
Within 1 year or on demand	**37,000**	3,000
After 1 year but within 2 years	**14,000**	7,000
After 2 years but within 5 years	**70,000**	58,000
After 5 years	**36,000**	62,000
	120,000	127,000
	157,000	130,000

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair value.

22. INTEREST-BEARING BANK BORROWINGS (continued)

The Group's banking facilities is amounting to RMB127,000,000 were secured by:

i) mortgages over the Group's interest in leasehold land held for own use under operating lease situated in the PRC, which had an aggregate carrying value at the balance sheet date 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 of approximately RMB177,148,000 (2006: 152,141,000) at the balance sheet date;

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

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

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

In addition, the Company's immediate parent company has put up a personal guarantee for a loan granted by a bank to the Company. At the balance sheet date, the outstanding bank loan amounted to RMB127,000,000 (2006: RMB130,000,000) (note 30(b) (xii)).

23. INCOME TAX IN THE BALANCE SHEET

a) Current taxation in the balance sheet represents:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Provision for the year		
– PRC Enterprise Income Tax	**—**	—
Provisional tax paid		
– PRC Enterprise Income Tax	**2,342**	2,397
	2,342	2,397

23. INCOME TAX IN THE BALANCE SHEET (continued)

b) Deferred tax assets and liabilities recognised:

The Group and the Company

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Total
	RMB'000
Deferred tax arising from accrued expenses:	
At 1 January 2006	254
Credited to profit or loss	(29)
At 31 December 2006	225
At 1 January 2007	225
Charged to profit or loss	225
At 31 December 2007	450

c) Deferred tax assets not recognised

At the balance sheet date, the Group has unused tax losses of RMB31,232,000 (2006: RMB13,539,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

24. ENTRUSTED LOANS FROM IMMEDIATE PARENT COMPANY

The Group and the Company

The entrusted loans from the immediate parent company were unsecured, interest bearing at 5% per annum (2006: interest free) and not expected to be settled within one year.

The carrying amount of the Group's entrusted loans from immediate parent company approximate to its fair value.

25. DEFERRED REVENUE

The Group and the Company

	Subsidy A RMB'000 (Note a)	Subsidy B RMB'000 (Note b)	Subsidy C RMB'000 (Note c)	Subsidy D RMB'000 (Note d)	Total RMB'000
Cost					
At 1 January 2006 and 2007	500	500	3,000	400	4,400
At 31 December 2006 and 2007	500	500	3,000	400	4,400
Accumulated amortisation					
At 1 January 2006	50	—	49	—	99
Released to income statement for the year	50	—	229	233	512
At 31 December 2006	100	—	278	233	611
At 1 January 2007	100	—	278	233	611
Released to income statement for the year	50	—	298	—	348
At 31 December 2007	150	—	576	233	959
Carrying amount					
At 31 December 2007	350	500	2,424	167	3,441
At 31 December 2006	400	500	2,722	167	3,789

25. DEFERRED REVENUE (continued)

Note:

a) 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 to the Company for the acquisition of certain plant and machinery for the production of interferon spray. An amount of RMB50,000 (2006: RMB50,000) had has released to the income statement to match the depreciation charged for the year of the related plant and machinery.

b) In July 2003, another subsidy of RMB500,000 was jointly granted by the Shenzhen Bureau of Science and Technology and the Shenzhen Bureau of Finance for assisting the Company in performing research and development of interferon ointment. The subsidy is not required to be repaid to the Shenzhen Bureau of Science and Technology and the Shenzhen Bureau of Finance only if the project is subsequently approved and certified by Shenzhen Bureau of Science and Technology and Shenzhen Bureau of Finance upon their completion. Since the Company has not yet got the approval of the project, the subsidy was not recognised as income for 2007 and 2006.

c) 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 granted in July 2005. These subsidies are not required to be repaid and an amount of RMB298,000 (2006: RMB229,000) was released to the income statement to match the depreciation charged for the year of the related plant and machinery.

d) 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. Since the Company has not yet got the approval of the project, the subsidy was not recognized as income for 2007 (2006: RMB233,000 had been released to the income statement to match the expenses charged for the year of the plant and machinery acquired).

The directors advised that, except for subsidies mentioned in note 5 and note 25, there was no other forms of government assistance from which the Group has directly benefited.

26. SHARE CAPITAL

	2007 Number of shares '000	2006 Number of shares '000	**2007 RMB'000**	2006 RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB0.10 each	**710,000**	710,000	**71,000**	71,000
H shares of RMB0.10 each	**236,670**	236,670	**23,667**	23,667
	946,670	946,670	**94,667**	94,667

The domestic shares are not currently listed on any stock exchange.

The H shares have been issued and listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited since September 2005.

27. 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 of the financial statements.

b) The Company

	Share premium account	Statutory reserve fund	Retained profits/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 January 2006	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
Loss for the year	—	—	(20,720)	(20,720)
At 31 December 2007	41,923	3,330	(37,884)	7,369

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 reserve fund which is appropriated from net profit after tax but before dividend distribution.

c) Nature and purpose of reserves

The Company is required to allocate at least 10% of its net profit per the PRC audited statutory financial statements to the statutory 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 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 20% of the issued share capital after such capitalisation.

27. RESERVES (continued)

c) Nature and purpose of reserves (continued)

Upon the revision to the Company Law of the PRC on 27 October 2005, the Company and its subsidiaries are not required to allocate certain profit after tax to the statutory public welfare fund since 1 January 2006. The statutory public welfare fund brought forward from 2005 has been transferred to the statutory reserve fund.

d) Capital management

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain a gearing ratio within 30% to 70%. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007 **RMB'000**	2006 RMB'000
Total borrowings		
Interest-bearing bank borrowings (note 22)	**157,000**	130,000
Entrusted loans from immediate parent company (note 24)	**48,000**	—
	205,000	130,000
Less: Cash and cash equivalents (note 20)	**38,650**	36,963
Net debt	**166,350**	93,037
Total equity	**101,457**	122,624
Total capital	**267,807**	215,661
Gearing ratio	**62%**	43%

28. CONTINGENT LIABILITY

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Group's major financial instruments include equity investments, borrowings, trade receivable and trade payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk and interest rate risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

i) As at 31 December 2007, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets after deducting any impairment allowance.

ii) In respect of trade and other receivables, in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 90 days from the date of billing.

iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the balance sheet date, the Group had no significant concentrations of credit risk which individual trade and other receivables balance exceeds 10% of the total trade and other receivables at balance sheet date.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (continued)

b) Liquidity risk (continued)

The following liquidity and interest risk tables set out the weighted average effective interest rate and the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company required to pay:

The Group and the Company

	2007							2006						
	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscount cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans – variable rates	6.39%	37,000	21,668	90,320	40,601	189,589	157,000	6.39%	11,307	15,115	81,004	73,885	181,311	130,000
Entrusted loans from immediate parent company	5%	–	52,800	–	–	52,800	48,000	–	–	–	–	–	–	–
		37,000	74,468	90,320	40,601	242,389	205,000		11,307	15,115	81,004	73,885	181,311	130,000

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (continued)

c) Interest rate risk

The Group's exposure to market risk for exchange in interest rates related primarily to the Group's interest bearing borrowings. The Group's exposure to interest rate risk is minimal as all the Group's bank borrowings are at fixed interest rate.

At 31 December 2007, it is estimated that a general increase/decrease of 1% basis point in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB1,750,000 (2006: RMB1,300,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 1% basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

d) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group's transactional currency is Renminbi and over 80% of the turnover are contracted in Renminbi. The directors considered that, although the exchange rate between US dollar and Renminbi was fluctuated over the years, the foreign currency exposure was insignificant.

e) Fair values

The fair values of cash and cash equivalents, bank deposits, debtors, other receivables, trade and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of financial assets traded on active liquid markets are determined with reference to listed market prices. The carrying amounts of bank loans and entrusted loans from the immediate parent company approximate their fair values.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except as follows:

	2007		2006	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
The Group and the Company				
Secured bank loans	**157,000**	**148,659**	130,000	129,480
Entrusted loans from immediate parent company	**48,000**	**44,664**	—	—

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (continued)

f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

i) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

30. MATERIAL RELATED PARTY TRANSACTIONS

During the year the Group has the following material transactions with related parties.

a) During the year ended 31 December 2007, the Group entered into certain continuing connected transactions. The Company's independent non-executive directors have reviewed these transactions, details of which are disclosed under the paragraph "Continuing connected transactions" in the report of the directors.

b) The Group had the following significant transactions with related parties during the year:

Name of related parties	**Nature of transactions**	**Note**	**2007 RMB'000**	2006 RMB'000	**Relationship**
Shenzhen Neptunus Bio-engineering Co. Ltd. ("Neptunus Bio-engineering') company")	Entrusted loans from the immediate parent company	(i)	**48,000**	10,000	Immediate parent company
	Fund transfer to immediate parent company for arranging purchase of raw materials		**2,000**	—	
Shenzhen Neptunus Pharmaceutical Co. Ltd. ("Neptunus Pharmaceutical')	Rental of factory premises	(ii) (iii)	**120**	120	Fellow subsidiary
	Reimbursement on the use of plant and machinery	(ii) (iv)	**554**	109	
	Reimbursement of direct labour costs	(ii) (v)	**222**	152	
	Reimbursement of water, electricity and fuel costs	(ii) (vi)	**1,192**	551	
	Management fees	(ii) (vii)	**10**	10	
	Property management fees	(ii) (viii)	**60**	60	

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

b) The Group had the following significant transactions with related parties during the year: (continued)

Name of related parties	Nature of transactions	Note	2007 RMB'000	2006 RMB'000	Relationship
Shenzhen Nepstar Pharmaceutical Company Limited	Sales of interferon and interleukin	(ii) (ix)	—	111	Fellow subsidiary
Shandong Neptunus Yinhe Pharmaceutical Pharmaceutical Co. Ltd. ("Shandong Neptunus")	Sales of interferon and interleukin	(ii) (ix)	—	8,042	Fellow subsidiary
Shenzhen Neptunus Group Co. Ltd. ("Neptunus Group")	Reimbursement of telephone system costs	(x)	—	6	Ultimate controlling parent
Shenzhen Neptunus Tongai Pharmaceutical Co. Ltd. ("Tongai Pharmaceutical")	Rental of office and factory premises	(ii) (xi)	—	34	Fellow subsidiary

Notes:

i) In September 2006, the Group obtained a RMB10,000,000 entrusted loan from Neptunus Bio-engineering. The entrusted loan was fully repaid in December 2006. In respect of this loan, no written agreement was entered into and the loan was unsecured, interest-free and has no fixed term of repayment.

In April 2007, the Group obtained a RMB39,000,000 interest-bearing entrusted loan from Neptunus Bio-engineering. The entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009.

On 13 December 2007, the Group obtained a further entrusted loan of RMB9,000,000 from Neptunus Bio-engineering. The entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009.

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

b) The Group had the following significant transactions with related parties during the year: (continued)

Notes: (continued)

ii) The ultimate controlling parent of these related parties is also the ultimate controlling parent of the Group. The director of the Company, Mr. Zhang Si Min, is also 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 reimbursement 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 utilization rates of the Group on those assets.

v) The reimbursement 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 reimbursement 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 in 2006. 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.

In respect of Shandong Neptunus, the Group entered into a distributorship agreement (the "Distributorship Agreement") with it. The distribution period commenced from 21 August 2005 and ended on 31 December 2007. The Group's sales to Shandong Neptunus under the Distributorship Agreement did 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 reimbursement 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, Tongai Pharmaceutical leased an office premises to the Company. The rental of RMB533,000 attributable to five years to 2006 was waived by Tongai Pharmaceutical pursuant to a waiver agreement dated 30 January 2007. The rental of RMB268,000 attributable to year 2007 was also wavied by Tongai Pharmacentical pursuant to an agreement dated 30 January 2008.

xii) During the year, Neptunus Bio-engineering provided a corporate guarantee to an extent of RMB127,000,000 for banking facility granted to the Group (note 22).

xiii) During the year, Neptunus Bio-engineering pledged its 639,000,000 domestic shares in the Company and Mr. Chai Xiang Dong, the director and shareholder of the Company, pledged his 47,671,000 domestic shares in the Company to secure the Group's bank loan of RMB127,000,000 (2006: RMB130,000,000) (note 22).

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

c) Financing arrangements

	Amounts owed to related parties		Related interest expenses	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Entrusted loans from the immediate parent company	**48,000**	9,000	**1,442**	—

Details of terms and conditions of the loans from the immediate parent company are disclosed in note 24.

Subsequent to the balance sheet date, the Group has arranged the following measures with its immediate parent that:

i) The immediate parent company will provide a New Entrused Loan of RMB30,000,000 to the Group to repay the Group's Original Entrusted Loan arranged between the Company and a bank and an independent third party which was due in March 2008. This New Entrusted Loan will bear an annual interest of 7.47% and the Group shall repay the New Entrusted Loan within 15 working days after the completion of the Group's fund raising, if any, to be done in the future. The Original Entrusted Loan of RMB30,000,000 was replaced by the New Entrusted Loan of the same amount on 26 March 2008.

ii) In addition to (i) the immediate parent company has indicated its intention, by way of a financial support letter, to provide further financial support amounting RMB30,000,000 to the Group if necessary. The financial assistance will be given in the form of an entrusted loan. The repayment term of the entrusted loan will be more than I year, and the interest rate will not be higher than market interest rate.

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

d) Outstanding balances with related parties

	Amounts owed by related parties As at 31 December		Amounts owed to related parties As at 31 December	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Outstanding balance with the immediate parent company	**2,000**	—	**—**	9,000
Outstanding balances with fellow subsidiaries:				
Neptunus Pharmaceutical	**2,277**	1,535	**—**	—
Shandong Neptunus	**—**	386	**158**	—
Nepstar Pharmaceutical	**10**	12	**—**	—
	4,287	1,933	**158**	9,000
Outstanding balance with subsidiary Ascendent Bio-Technology Co Ltd	**—**	—	**292**	716

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

e) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8 is as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other short-term employee benefits	**1,151**	975
Retirement scheme contributions	**14**	25
	1,165	1,000

Total remuneration is included in "staff costs" (see note 5(b)).

31. COMMITMENTS

a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Contracted, but not provided for:		
Technical know-how, net of deposits	**8,927**	11,918
Property, plant and equipment	**7,708**	30,860
Land lease payments, net of deposits*	**5,500**	5,500
Others	**173**	209
	22,308	48,487
Authorised, but not contracted for:		
Plant and equipment	**1,530**	2,738
	23,838	51,225

* 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 have already been acquired by the Company, in return of park development integrated fee (the "PDI fee") of RMB6,000,000 to be paid by the Company.

RMB500,000 of the PDI fee has been paid by the Company as deposit and the Company is in the course of apply for a waiver of the balance. The directors are of the opinion that the application will be successful and provision for the balance of RMB5,500,000 PDI fee is not required.

31. COMMITMENTS (continued)

b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Within 1 year	**563**	748
After 1 year but within 5 years	**—**	125
	563	873

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

32. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, *Financial instruments: Disclosures*, and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

In addition, certain comparative amounts have been reclassified to conform with the current year's presentation. Government grant relates to an expense item was previously presented in other income. For the year ended 31 December 2007, government subsidy of amount RMB6,000,000 (2006: RMB3,546,000) is reclassified and deducted directly to related borrowing cost in order to provide more relevant information to the users of the financial statements.

33. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, the directors consider the immediate parent and ultimate controlling party of the Group to be Shenzhen Neptunus Bio-engineering Co., Ltd. and Shenzhen Neptunus Group Co., Ltd. respectively, which are incorporated in PRC. Shenzhen Neptunus Bio-engineering Co., Ltd. produces accounts for public use.

34. ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 1, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

i) Impairment of property, plant and equipment and land lease prepayments

The recoverable amount of an asset is the greater of its net selling price and value in use. 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, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

ii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables, where applicable, at each balance sheet date. The estimates are based on the ageing of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

iii) 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.

34. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

a) Key sources of estimation uncertainty (continued)

iv) Impairment of intangible assets

The Group performs annual test on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 1(h). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculation require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

v) Amortisation of intangible assets

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The Group reassesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HKAS 1 (Revised), *Presentation of Financial Statements*	1 January 2009
HKAS 3 (Revised), *Business Combinations*	1 July 2009
HKAS 23 (Revised), *Borrowing Costs*	1 January 2009
HKAS 27 (Revised), *Consolidated and Seperate Financial Statements*	1 July 2009
HKFRS 8, *Operating Segments*	1 January 2009
HK(IFRIC)–Int 11, HKFRS 2 – *Group and Treasury Share Transactions*	1 March 2007
HK(IFRIC)–Int 12, *Service Concession Arrangements*	1 January 2008
HK(IFRIC)–Int 13, *Customer Loyalty Programmes*	1 July 2008
HK(IFRIC)–Int 14, *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	1 January 2008

36. SUBSEQUENT EVENTS

a) Subsequent to the balance sheet date, the Group obtained a financial support letter from its immediate parent that:

i) The immediate parent company will provide a New Entrusted Loan of RMB30,000,000 to the Group to repay the Group's Original Entrusted Loan arranged between the Company and a Bank and an independent third party which was due in March 2008. This New Entrusted Loan will bear an annual interest of 7.47% and the Group shall repay the New Entrusted Loan within 15 working days after the completion of the Group's fund raising, if any, to be done in the future. The Original Entrusted Loan of RMB30,000,000 was replaced by the New Entrusted Loan of the same amount on 26 March 2008.

ii) In addition to (i) the immediate parent company has indicated its intention, by way of a financial support letter, to provide further financial support amounting RMB30,000,000 to the Group if necessary. The financial assistance will be given in the form of an entrusted loan. The repayment term of the entrusted loan will be more than I year, and the interest rate will not be higher than market interest rate.

b) Subsequent to the balance sheet date, Tongai Pharmacentical leased an office premise to the Company. The annual rental for the Year of the amount of RMB268,000 was waived by Tongai Pharmacentical pursuant to agreement dated 30 January 2008.

FOUR YEAR FINANCIAL SUMMARY

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

	Year ended 31 December			
	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS				
TURNOVER	**16,160**	20,181	49,383	48,248
Cost of sales	**(5,103)**	(7,697)	(7,708)	(7,959)
Gross profit	**11,057**	12,484	41,675	40,289
Other income	**3,347**	1,606	702	2,240
Selling and distribution costs	**(3,897)**	(11,002)	(27,749)	(23,704)
Administrative expenses	**(17,088)**	(12,514)	(5,730)	(3,178)
Other operating expenses	**(12,270)**	(13,494)	(6,788)	(4,338)
(Loss)/profit from operations	**(18,851)**	(22,920)	2,110	11,309
Finance costs	**(2,541)**	(3,018)	(1,168)	(1,088)
(LOSS)/PROFIT BEFORE TAXATION	**(21,392)**	(25,938)	942	10,221
Income Tax	**225**	(29)	(1,102)	(1,643)
(LOSS)/PROFIT FOR THE YEAR AND ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	**(21,167)**	(25,967)	(160)	8,578
ASSETS AND LIABILITIES				
TOTAL ASSETS	**325,794**	277,354	228,530	114,403
TOTAL LIABILITIES	**(224,337)**	(154,730)	(79,939)	(31,242)
	101,457	122,624	148,591	83,161

Certain comparative amounts have been reclassified to conform with the current year's presentation. Government grant related to an expense item was presented in other income, and is reclassified and deducted directly from related borrowing cost in order to provide more relevant information to the users of the financial statements.

GROUP PROPERTY

PROPERTY UNDER DEVELOPMENT

Location	Intended use	Stage of completion	Expected date of completion	Site area (sq.m)	Gross floor area (sq.m)	Group's interest (%)
High-Tech Industrial Park, Guangming, Baoan Shenzhen, China	Commercial	95%	April 2008	60,022.85	33,652.01	100