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)

2008 Annual Report

* For identification purpose only

Stock Code: 8329

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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.

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Corporate Information

DIRECTORS

Executive Directors

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

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. Xiong Chu Xiong
Mr. Xu An Long
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

JOINT COMPANY SECRETARIES

Ms. Lee Mei Yi, (ACS, ACIS)
Mr. Huang Jianbo

COMPLIANCE OFFICER

Mr. Zhang Si Min

AUTHORISED REPRESENTATIVES

Mr. Chai Xiang Dong
Mr. Huang Jian Bo

AUDITORS

CCIF CPA Limited

LEGAL ADVISER

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

PRINCIPAL BANKS

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

H SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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REGISTERED OFFICE

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WEBSITE

www.interlong.com

STOCK CODE

8329

Chairman's Statement

Dear shareholders,

The Company and its subsidiary, Ascendent Bio-Technology Company Limited (collectively the "Group") were committed to the development of their existing business operations and strived to seek international renowned pharmaceutical companies as cooperation partners for our influenza vaccines business operations in order to introduce advanced international production and quality management system and product quality standards for influenza vaccines during the year ended 31 December 2008 (the "Year").

The Company's current cytokines business ("Cytokines Business") which includes the production and sales of recombinant human interferon α2b for injection ("rhIFNα2b for injection") and recombinant human interleukin-2 for injection (125Ser) ("rhIL-2 (125Ser) for injection") (collectively the "Core Products") continued its stable development during the Year, growth in sales was not significant as compared to 2007. During the first two months of 2009, revenue from the Cytokines Business decreased by 50% as compared to the same period in 2008. The Company decided to dispose of the Cytokines Business due to its unsatisfactory performance and the fact that further improvement on the profitability of the Cytokines Business will involve substantial costs and time. In order to reallocate the Group's resources to more profitable businesses, the Group intends to implement certain business restructuring and expansion plans, upon completion of such plans, (i) the Company will be transformed from a cytokines therapeutic drugs production company to a company focused on the R&D business; and (ii) the Group will participate in the development, production and sale of influenza vaccines and generic drugs through the operating subsidiaries of the Company. In order to enable the Company to quickly achieve its goals in the reduction of fixed costs and for better allocation of resources to facilitate the business restructuring and expansion plans of the Group, the Company ceased the operations of the Cytokines Business on 16 March 2009. In order to facilitate the relevant business restructuring and expansion plans, the Company has taken various steps described below.

On 20 November 2008, the Company entered into a cooperation agreement (the "Cooperation Agreement") for the establishment of a joint venture company (the "JV Company") with GlaxoSmithKline Biologicals SA and GlaxoSmithKline Pte Ltd ("GSK Pte") (collectively "GSK"). The Company has satisfied most of the conditions precedent under the Cooperation Agreement. The Company expects to sign the Joint Venture Contract ("JV Contract") with GSK Pte between May and June 2009 and to establish the JV Company between July and August 2009. Upon the establishment of the JV Company, it will be beneficially owned by the Company and GSK Pte as to 60% and 40% respectively. The board of directors ("the Board") of the Company believes that the JV Company will become the operating subsidiary of the Company for the development of the influenza vaccines business. The JV Company can significantly increase its annual production capacity and produce high quality vaccines on a larger scale in a more cost effective way, so as to provide its products with a strong competitive advantage. With GSK's branding power in the industry, the Board expects to explore a more extensive network in overseas vaccine market. The Board believes that such global network will potentially fuel a significant revenue growth for the JV Company. The Board also believes that the Company's equity interests in the JV Company will generate profits to the Company and enhance the Company's image and position in the global bio-pharmaceutical industry.

Chairman's Statement

In view of the reforms in the PRC's medical system and the increased investments in the city and rural medical insurance schemes by the PRC government, the Board believes that the generic drugs market in the PRC is and will be growing rapidly and there will be great development potential for such drugs. Therefore, the Company intends to expand into this market and will consider acquisition of pharmaceutical manufacturer specializing in generic drugs. Subsequent to the Year, the Company entered into a letter of intent with Shenzhen Neptunus Bio-engineering Company Limited ("Neptunus Bio-engineering") and Shenzhen Neptunus Pharmaceutical Company Limited ("Neptunus Pharmaceutical") in relation to the disposal by the Company of the Cytokines Business and the relevant assets and the acquisition by the Company of the equity interests in Fuzhou Neptunus Fuyao Pharmaceutical Company Limited ("Neptunus Fuyao"). These transactions, if materialized, are expected to bring positive support for the Company's operating cash flow.

The proposed placement of the Company's new H shares was postponed as a result of the global financial crisis. The Company is actively conducting research on the placement of its new H shares and will strive to complete the placement of its new H shares as soon as practicable.

The Board believes the business restructuring and expansion plans of the Group are in the best interest of the Group and is confident about the business prospects of 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 Group.

Zhang Si Min
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

During the Year, the Group was principally engaged in the research and development of modern biological technology (the "R&D Business"), production and sale of cytokine therapeutic drugs and sale of vaccines for infectious diseases in the PRC. During the Year, the Group had suspended the production of subunit influenza vaccine and mainly produced the Core Products, namely rhIFNα2b for injection and rhIL-2 (125 Ser) for injection, and sold the Core Products and subunit influenza vaccine. The Core Products were mainly sold in the PRC and part of them were exported to the Southeast Asian markets.

Cytokines business

During the Year and the first two months of 2009, the Company focused its activities in the Cytokine Business, the R&D Business and the influenza vaccines business. The sales and profit margin of the Core Products for the above-mentioned periods declined and were not satisfactory. There was no significant growth in the annual sales income of the Core Products during the Year as compared with that in 2007. In the first two months of 2009, the sales income of the Core Products decreased by approximately 50% as compared with the corresponding period of the Year. The Board believes that the decrease in sales income and profit margin of the Core Products is mainly attributable to the following:-

(i) *Change in environment of pharmaceutical market in the PRC*

The market for interferon for injection is growing steadily in the PRC in recent years. Currently there are over twenty domestic manufacturers engaging in the production of such drug, resulting in a very competitive market. With the launch of a new pegylated interferon by several major international pharmaceutical manufacturers between 2003 and 2006, the sales and market share of ordinary injection interferon products (including rhIFNα2b for injection of the Company) have shrunk greatly in 2007.

(ii) *Introduction of price reduction policies on drugs by the PRC government*

Between 1998 and 2007, the National Development and Reform Commission ("NDRC") had successively reduced the highest retail price of several drugs (including the Core Products) through the introduction of a series of rules and regulations set out in this paragraph.

The "Circular of the NDRC on the Reduction of Retail Price of 22 Drugs including Cefuroxime"(《國家發展改革委關於降低頭孢呋辛等二十二種藥品零售價格的通知》) was promulgated on 18 September 2005 and the "Circular on the Further Rationalization of Prices for Drugs and the Medical Services Market"(《關於進一步整頓藥品和醫療服務市場價格秩序的通知》) was promulgated on 19 May 2006. Since the promulgation of such circulars, the highest retail price ceiling of the Company's rhIFNα2b for injection (one of the Core Products) set by the PRC government in 2006 (which is still applicable now) has dropped significantly by approximately 69% as compared with that in 1999 when such product was first launched in the market.

On 30 November 2006, the Guangdong Pricing Bureau promulgated the "Circular on the Announcement of the Highest Retail Price of Drugs including Cefetamet Pivoxil"(《關於公布頭孢他美酯等藥品最高零售價格的通知》). On 31 December 2006, the NDRC further promulgated the "Circular of the NDRC on the Highest Retail Price of 345 Drugs including Arginine"(《國家發展改革委關於精氨酸等345種藥品最高零售價格的通知》). Since the promulgation of these circulars, the highest retail price ceiling of the Company's rhIL-2 (125Ser) for injection (the Core Product) set by the PRC government in 2006 (which is still applicable now) has dropped significantly by approximately 60% as compared with that in 2002 when such product was first launched in the market.

(iii) Reduction in retail price and increase in production costs

The above price reduction policies on drugs of the PRC government have adversely affected the retail price and the profitability of the Core Products. During the Year, retail prices of the Core Products in the PRC decreased substantially by 50 % as compared with that in 2006, as a result of both such policies and keen market competition. Reducing selling price and increasing production costs (including costs for raw materials, labour, utilities and transportation) of the Core Products have resulted in significant decrease in the profit of the Core Products.

The GMP certificate for the Company's rhIL-2 (125Ser) for injection (one of the Core Products) expired on 23 December 2008. The amended Drugs GMP Certification, Examination and Assessment Standards (《藥品GMP認證檢查評定標準》) ("2008 GMP Certification Standards") became effective on 1 January 2008. The GMP certification standards under the 2008 GMP Certification Standards are more stringent than the original standards. In order to continue the production of rhIL-2 (125Ser) for injection, the Company has to apply for a new GMP certificate for its production line in accordance with the 2008 GMP Certification Standards. To do so, the Company has to upgrade and reform its current production line. On the other hand, although the GMP certificate for the Company's rhIFNα2b for injection (the other Core Product) will only expire on 29 December 2010, in order to improve the profitability of the Cytokines Business, the Board takes the view that it is imperative for the Company to upgrade its current production lines or establish new production lines in order to reduce production costs so as to enhance the market competitiveness of the Company's rhIFNα2b for injection and to comply with the 2008 GMP Certification Standards. The Board estimates that the investment in upgrading or constructing new production lines for these two Core Products will be substantial and it will take at least one year before the Company can obtain the new GMP certificates.

Given that (i) the performance of the Cytokines Business is unsatisfactory; (ii) substantial costs and time are required to increase its profitability; and (iii) at least 55 employees have to be retained (and therefore the costs necessary to maintain such employees) to operate the Cytokines Business, the Company ceased the operation of such business on 16 March 2009 with a view that the Company could quickly achieve its goals in the reduction of fixed costs and better allocation of resources for the Group's business restructuring and expansion plans. As a result of the cessation, 29 employees (out of 55 employees engaged in the Cytokines Business) were dismissed in 31 March 2009 in accordance with the requirements of the PRC Labour Contract Law, and 10 out of the remaining 26 employees will be re-deployed to the R&D Business and the rest of them will be transferred to other companies within the Neptunus Bio-engineering group.

Management Discussion and Analysis

INFLUENZA VACCINES BUSINESS

Establishment of the JV Company with GSK Pte

The influenza vaccines business is a key business to be developed by the Company. On 20 November 2008, the Company entered into the Cooperation Agreement for the establishment of the JV Company with GSK. The Company has satisfied most of the conditions precedent under the Cooperation Agreement, the Company is expected to sign the JV Contract with GSK Pte between May and June 2009 and to establish the JV Company between July and August 2009. Upon the establishment of the JV Company, it will be beneficially owned by the Company and GSK Pte as to 60% and 40% respectively. The Board of the Company believes that the JV Company will become the operating subsidiary of the Company for the development of the influenza vaccines business the JV Company can significantly increase its annual production capacity and produce high quality vaccines on a larger scale in a more cost effective way, so as to provide its products with a strong competitive advantage. With GSK's branding power in the industry, the Board expects to explore a more extensive network in overseas vaccine market. The Board believes that such global network will potentially fuel a significant revenue growth for the JV Company. The Board also believes that the Company's equity interests in the JV Company will bring profits to the Company and enhance improve the Company's image and position in the global bio-pharmaceutical industry.

The JV Contract provides that the term of the JV Company shall be ten years. The total investment of the JV Company shall be US$ 99,900,000 (approximately HK$774,000,000) and the registered capital of the JV Company shall be US$78,330,000 (approximately HK$607,000,000), of which US$47,000,000 (approximately HK$364,000,000, representing 60% of the equity interest in the JV Company) shall be contributed by the Company by way of the land use right of the parcel of land with a lot number of A607-0362 in Guangming New District and the buildings, plant, machines, equipment and intangible assets (including technology and proprietary rights in split influenza vaccine, subunit influenza vaccine and rabies vaccine; and US$31,330,000 (approximately HK$243,000,000, representing 40% of the equity interest in the JV Company) shall be contributed by GSK Pte in cash. The JV Company intends to make use of GSK's internationally advanced technology, quality management and operation systems and the large-scale production technology and adjuvant system technology (which are key manufacturing technologies for global first class vaccines) to develop and produce a series of influenza vaccines products, including split influenza vaccine, subunit influenza vaccine, improved influenza vaccine, adjuvanted influenza vaccine, 4-valent influenza vaccine and pre-pandemic flu vaccine and pandemic flu vaccines.

The JV Contract also provides that upon the first anniversary of the establishment date of the JV Company, GSK Pte shall purchase from the Company 9% of the equity interests in the JV Company for a consideration equivalent to 150% of the original value of such equity interests. On each subsequent anniversary of the establishment date of the JV Company, both of the JV parties shall discuss in good faith and agree on further increase of GSK Pte's equity interests in the JV Company by purchasing the equity interests held by the Company in the JV Company, provided however that, in case GSK Pte's equity interests are below fifty percent (50%) by the 5th anniversary of the establishment date, upon GSK Pte's request, the Company shall sell its equity interests to GSK Pte in such percentage as necessary for GSK Pte's equity interests in the JV Company to reach a minimum of fifty-one percent (51%) and a maximum of sixty percent (60%) of the registered capital.

Management Discussion and Analysis

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）for new medicine certificate and obtained the approval for production and new medicine certificate for rhIFNα2b effervescent tablet during the Year. The project is currently at the stage of application for the GMP Certification.

Patent

On 30 April 2008, the Company obtained the authorization for the South African patent for the cream containing interferon liposome (patent no. 2006-06309).

On 15 August 2008, "a vaginal interferon effervescent tablet and its preparation method" of the Company was granted invention patent by the State Intellectual Property Office, and the related patent registration procedures and patent certificates are under process.

SALES AND MARKETING BUSINESS

During the Year, the Group achieved stable development of agency sales of the Core Products and sales volumes of high specification products of the Core Products did not record significant growth when compared with last year. In view of the changes in the domestic market environment and factors such as the pharmaceutical price reduction policy implemented by the PRC government, the Board expects that market prices of the Core Products may decline continuously. The Company intends to dispose of the Cytokines Business and the relevant assets and acquire pharmaceutical manufacturers specialising in generic drugs.

Since the production and sales of subunit influenza vaccine were far from satisfactory during the Year, the Company had suspended the production of such vaccine since January 2008 in order to reallocate the resources to the Group's new influenza vaccines production base in Baoan district of Shenzhen (the "Baoan production base") with a designed production capacity of 10 million doses. After the establishment of the JV Company between the Company and GSK Pte, the Group will continue to develop the influenza vaccines business through the JV Company.

Management Discussion and Analysis

Intention subsequent to the Year

Disposal of Cytokines Business and acquisition of Neptunus Fuyao

On 2 March 2009, the Company entered into a non-legally binding Letter of Intent ("Letter of Intent") with Neptunus Bio-engineering and Neptunus Pharmaceutical. Pursuant to the Letter of Intent, the parties intend to enter into the following transactions concurrently: (i) the Company intends to acquire and Neptunus Bio-engineering and Neptunus Pharmaceutical intend to sell to the Company the 75% and 5% equity interests held by them respectively in Neptunus Fuyao; (ii) the Company intends to sell and Neptunus Pharmaceutical intends to acquire the Cytokines Business and relevant assets owned by the Company. The Letter of Intent has no legal binding effect on the parties. The legal due diligence on Neptunus Fuyao and the Cytokines Business has been completed. The parties are now finalizing the financial due diligence on Neptunus Fuyao and the Cytokines Business and they intend to enter into a formal sale and purchase agreement between June and July 2009. Subject to the obtaining of approval from the shareholders, the Company intends to complete such sale and purchase agreement by the second half of 2009.

According to the PRC audited accounts (prepared in accordance with the PRC Accounting Standards for Business Enterprises) of Neptunus Fuyao for the year ended 31 December 2007, net profit of Neptunus Fuyao as at 31 December 2007 was approximately RMB21,313,600. The Board considers that the acquisition of Neptunus Fuyao, if materialised, will improve the financial conditions of the Company significantly. The Company will nominate majority directors and senior management personnel of Neptunus Fuyao, and will participate actively in the daily management and business operations of Neptunus Fuyao through those such directors and senior management personnel. The Board believes that Neptunus Fuyao will become the operating subsidiary of the Company for the development of generic drugs.

The Board would like to point out that the accounting principles adopted by the PRC audited accounts of Neptunus Fuyao were PRC accounting principles, which are different from the accounting principles stipulated in Chapter 7 of the GEM Listing Rules. Therefore, shareholders of the Company and potential investors must exercise caution if they rely on the results of Neptunus Fuyao contained in this annual report.

The Board confirms that as at the date of this annual report, no legal binding agreement in respect of the proposed transactions under the Letter of Intent has been executed and such proposed transactions may or may not be carried out and the shareholders and potential investors of the Company shall exercise caution when dealing in the H shares of the Company.

Expansion of the R&D Business

As from January 2009, the Company has been focusing on the R&D Business and the expansion of the R&D Business by providing research and development services to Neptunus Bio-engineering Group. After the cessation of the Cytokines Business, the R&D Business became the main source of revenue for the Company and generated a revenue of approximately RMB500,000 for the Company in the first quarter of 2009.

Management Discussion and Analysis

To achieve its expansion plans for the R&D Business, the Company is now carrying out the following works for its R&D Business: (i) renovation and upgrading works for the office and laboratory; and (ii) construction works for its production plant. As at the date of this annual report, 21 employees of the Company are engaged in the R&D Business and the Company will re-deploy 10 employees who were previously engaged in the Cytokines Business to the R&D Business in the coming months. Each R&D personnel of the Company has on average more than ten years' R&D experience in the pharmaceutical industry and four of them have a doctorate degree or senior technician qualification in pharmaceutical-related field.

The Company intends to enter into (i) a service agreement for the provision of services in the research and development of cytokines therapeutic drugs for a term of not less than five years to Neptunus Pharmaceutical in May 2009; and (ii) a service agreement for the provision of services in the research, development, animal testing, clinical trial and new drug's regulatory compliance and registration of various influenza vaccines for a term of not less than five years to the JV Company in July or August 2009. These agreements will be on normal commercial terms to be determined on an arm's length basis. The Company is now finalising the terms of these agreements with GSK Pte and Neptunus Pharmaceutical.

PROSPECTS

If the Company and GSK Pte can reach agreement on the establishment of the JV Company, the JV Company will be committed to the development of influenza vaccines business. With the combined experience, standing and expertise of the JV parties and the intangible assets provided by GSK, the JV Company can significantly increase its annual production capacity and produce high quality vaccines on a larger scale in a more cost effective way, so as to provide its products with a strong competitive advantage. With GSK's branding power in the industry, the Board expects to explore a more extensive network in overseas vaccine market. The Board believes that such global network will potentially fuel a significant revenue growth for the JV Company. The Board believes that the Company's equity interests in the JV Company will bring profits to the Company and enhance the Company's image and position in the global biological pharmaceutical industry.

The acquisition by the Company of the 80% equity interest in Neptunus Fuyao, if successful, will bring to the Group the operation qualification for the production and sales of various forms of medicine such as high-volume and low-volume injections, tablets, capsules, granules and powder. The Board believes this will contribute stable revenue to the Group in the future and lay a solid foundation for the Group's continuous operation and expansion.

If the Company is able to sign the above agreements with the JV Company and Neptunus Pharmaceutical, the Board estimates that these agreements will generate revenue for the Company of approximately RMB4,000,000 in 2009 and approximately RMB8,000,000 to RMB10,000,000 of revenue per year over the next five years. The Board therefore takes the view that the R&D Business will provide stable revenue for the Company in the coming few years.

FINANCIAL REVIEW

Turnover of the Group amounted to approximately RMB16,310,000 for the Year, which approximated the turnover of approximately RMB 16,160,000 of the previous year. Turnover for the Year was mainly derived from the Core Products, namely rhIFNα2b for injection and rhIL-2(125Ser) for injection. rhIFNα2b for injection remained the major source of turnover. During the Year, turnover from domestic sales and exports amounted to approximately RMB12,534,000 and RMB3,776,000 respectively, accounting for 76.8% and 23.2% of the total turnover respectively. Export turnover increased by 34.2% compared to that of the previous year, indicating the Group's policy adopted in 2006 to set up a subsidiary in Hong Kong to conduct international business was bringing revenues to the Company gradually.

Management Discussion and Analysis

During the Year, the gross profit and the gross margin of the Group were approximately RMB8,833,000 and 54.2% respectively, representing a decrease of approximately RMB2,224,000 and 14.2% as compared with the corresponding period of the previous year. The decrease in gross profit and gross margin was due to the increase in the production costs and the decrease in selling price of the Core Products.

Selling and distribution expenses of the Group amounted to approximately RMB3,242,000 during the Year, accounting for approximately 19.9% of the turnover, and representing a sharp decline of approximately RMB655,000 or approximately 16.8%, from approximately RMB3,897,000 of the previous year. The major reasons for the decline in expenses included: (i) the Group continued to optimize its sales team under the marketing model focusing on agency sales and reduced sales staff to save salary and benefit expenses; and (ii) the Group's management on sales and distribution expenses achieved satisfactory results during the Year.

Administrative expenses of the Group amounted to approximately RMB13,047,000 for the Year, accounting for approximately 80% of the turnover, and representing a sharp decrease of approximately RMB4,041,000 or 23.6% from approximately RMB17,088,000 of the previous year. The major reasons for the decrease in expenses included: (i) the Group adopted a more detailed accounts classification method by which part of administrative expenses was transferred to Construction-in-Progress (CIP), and as a result the administrative expenses decreased; and (ii) more stringent control over administrative expenses was implemented by the Group, contributing to the decrease of administrative expenses.

Finance costs of the Group amounted to approximately RMB5,831,000 for the Year, representing an increase of approximately RMB3,290,000 or approximately 129.5% from RMB2,541,000 of the previous year. The increase in expenses was mainly due to (i) the increase in interest rate for loans in 2008 as compared with that in 2007; and (ii) that loan interest has not been capitalized since October 2008.

Other expenses of the Group amounted to approximately RMB20,234,000 for the Year, increasing by approximately RMB7,964,000 or approximately 64.9% compared with approximately RMB12,270,000 of the previous year. The increase was mainly because (i) the Group increased investment in Department of R&D and the research and development materials increased in the Year; and (ii) the increased depreciation of intangible assets and inventories.

Total loss before taxation of the Group amounted to approximately RMB30,871,000 for the Year, representing an increase of approximately RMB9,479,000 from the loss before taxation of approximately RMB21,392,000 of the previous year. The main reasons for increase of loss were: (i) increase in production cost and reduction in the selling price of the Core Products, which resulted in decline of gross profit; and (ii) further investment in products under research and development by the Group.

LIQUIDITY AND FINANCIAL RESOURCES

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

Management Discussion and Analysis

Borrowings and banking facilities

As at 31 December 2008, the Group's bank and cash balance was approximately RMB3,773,000, while it was approximately RMB38,650,000 as at 31 December 2007. As at 31 December 2008, the Group's bank facilities debt was RMB120,000,000, all of which was long-term bank borrowings. The Group's controlling shareholder's entrusted loans obtained through the entrusted arrangement with banks were RMB78,000,000.

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 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 Loan Project to repay the CDB Loan with CDB by instalments. During the Year, the Company repaid principal amount of RMB7,000,000 and interest of RMB 9,876,000 to CDB in accordance with the repayment schedule stipulated in the CDB Loan Agreement.

Shareholder's entrusted loans

Shareholder's entrusted loans obtained by the Company from Neptunus Bio-engineering during the Year amounted to approximately RMB 78,000,000.

The Company obtained a shareholder's entrusted loan of RMB9,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank. This shareholder's entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009. However, Neptunus Bio-engineering had undertaken to the Company that it would not demand repayment of the abovementioned shareholder's 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 its business objectives as set out in the prospectus published by the Company on 29 August 2005 in relation to the listing of its H shares on GEM (the "Prospectus"); and (2) each of the independent non-executive directors was 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 made under (2); and (3) the Company had a positive cash flow and had retained profits in the relevant financial year.

The Company obtained another shareholder's entrusted loan of RMB39,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank. This shareholder's entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009. However, Neptunus Bio-engineering had undertaken that the repayment date of this entrusted loan be postponed to 5 April 2010 or the 15th working day after the completion of the issue of new H shares by the Company (whichever is earlier).

The Company also obtained a shareholder's entrusted loan of RMB30,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank on 26 March 2008. This shareholder's entrusted loan is unsecured, bears an annual interest of 7.47% and is repayable on 26 March 2009 or 15 working days after the completion of the issue of additional new H Shares by the Company (whichever is earlier). Neptunus Bio-engineering also had undertaken not to require the repayment of entrusted loan until 26 March 2010 or the 15th working day after the completion of the issue of new H shares by the Company (whichever is earlier).

On 18 March 2008, Neptunus Bio-engineering, the controlling shareholder of the Company, undertook to the Company that, if the Company during the Year had no sufficient working capital to satisfy its current needs, Neptunus Bioengineering would provide suitable financial aids to satisfy the Company's continued operation capabilities during the Year. During the Year, Neptunus Bioengineering provided non-interest-bearing financial assistance to the Company in a total amount of approximately RMB 9,680,000.

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 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 Bioengineering'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 but not limited to 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 the restriction on the 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 assistances to the Company by a connected person, the financial assistances have been entered into on normal commercial terms (or better terms to the Company) and the Company has not provided any security over its assets to Neptunus Bio-engineering. Consequently, the above financial assistances constitute exempt connected transactions under Rule 20.65(4) of the GEM Listing Rules and are exempt from reporting, announcement and independent shareholders´ approval requirements.

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 by a connected person, the financial assistance has been entered into on normal commercial terms (or better terms to the Company) and the Company has not provided any security over its assets to Mr Chai. Consequently, the above financial assistance constitutes an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules and is exempt from reporting, announcement and independent shareholders´ approval requirements.

AMENDMENT AGREEMENT ENTERED INTO AFTER THE TERM OF THE CDB LOAN AGREEMENT

In order to obtain CDB's approval for the release of charges over the land use rights, properties, plants and equipments charged in favor of CDB, on 24 February 2009, the Company, Neptunus Bio-engineering and its controlling shareholder Shenzhen Neptunus Group Company Limited ("Neptunus Group") and Mr. Chai Xiang Dong entered into the Amendment Agreement for the CDB Loan Agreement (the "Amendment Agreement") with CDB. As a result of the execution of the Amendment Agreement, the Company shall open an account with CDB (the "Account") and shall deposit all future revenue generated by the Company, including but not limited to shareholder's dividends and distribution received from the JV Company (together, the "Shareholder's Income") and funds raised from any placing to be conducted by the Company in the future (the "Placing") to the Account. If after completion of the Placing the principal amount of the Loan and accrued interests (together, the "Outstanding Loan") have not been fully repaid, all the funds raised by the Company from the Placing shall be applied towards repayment of the Outstanding Loan. The Company shall apply (i) all the Shareholder's Income received from the JV Company; and (ii) the consideration received from GSK Pte for the transfer of the equity interest held by the Company in the JV Company; pursuant to the terms of the JV Contract towards repayment of the Outstanding Loan. All the revenue so deposited in the Account by the Company shall be subject to the supervision of CDB and shall be fully applied towards repayment of the Outstanding Loan. The Company shall authorise CDB to deduct the amount representing the Outstanding Loan directly from the Account until the Outstanding Loan has been fully repaid. The Amendment Agreement also provides that if the joint venture between the Company and GSK Pte turned out to be a failure, the Company shall continue to use the land use rights, properties and equipments legally owned by it to provide the guarantee and security in favour of CDB.

NEPTUNUS GROUP GUARANTEE AGREEMENT

The Amendment Agreement also imposes specific performance obligations on Neptunus Group as conditions precedent for the Company to obtain CDB's approval for the release of charges. Pursuant to the Amendment Agreement, Neptunus Group entered into the Neptunus Group Guarantee Agreement in favour of CDB on 24 February 2009, pursuant to which Neptunus Group has agreed, among other things, (i) to provide a guarantee in favour of CDB to guarantee the repayment of all sums owing by the Company under the Loan Agreement and (ii) to ensure that the Outstanding Loan can be fully repaid in a punctual manner irrespective of whether or not the JV Company under the JV Contract is established.

Although the transaction contemplated under the Neptunus Group Guarantee Agreement amounts to the provision of financial assistance to the Company by a connected person, the financial assistance has been entered into on normal commercial terms (or better terms to the Company) and the Company has not provided any security over its assets to Neptunus Group. Consequently, the transaction contemplated under the Neptunus Group Guarantee Agreement constitutes an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules and is exempt from reporting, announcement and independent shareholders' approval requirements.

GEARING RATIO

As at 31 December 2008, the gearing ratio of the Group was approximately 73% (2007: 62%) and was calculated by a division of the net debt (total borrowings less cash and cash equivalents) of approximately RMB194,227,000 (2007: RMB166,350,000) by total capital of approximately RMB265,089,000 (2007: RMB267,807,000).

NET CURRENT ASSETS

As at 31 December 2008, the Group had net current liabilities of approximately RMB31,180,000. Current assets comprised cash and cash equivalents of approximately RMB3,773,000, trade receivables of approximately RMB93,000, amounts due from related parties of approximately RMB1,277,000, inventories of approximately RMB1,994,000, prepayments, deposits and other receivables of approximately RMB2,556,000. Current liabilities comprised trade payables of approximately RMB1,356,000, interest-bearing bank borrowings to be repaid within one year of approximately RMB14,000,000, taxes payable of approximately RMB2,342,000, receipts in advance and other payables of approximately RMB23,175,000. The net current assets of the Group were approximately RMB9,064,000 as at 31 December 2007. The decrease of the net current assets of the Group in the Year was mainly due to the fact that (1) the Group repaid bank loan principal and interest of approximately RMB16,876,000 in the Year; (2) as at 31 December 2008, certain long-term bank borrowings had been converted to bank borrowings to be repaid within one year; and (3) the Group continued to pay for the cost of construction of the Baoan production base.

PLEDGE OF ASSETS

Pursuant to the Pledge Agreement entered into between the Company and CDB in 2006, the Company pledged all its lawfully obtained land use rights, buildings, plant and equipment located at Baoan district of Shenzhen to CDB and the relevant pledge procedures was completed in January 2009.

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

FOREIGN CURRENCY RISK

During the Year, approximately 23.1% of the Group operating revenue was denominated in US dollar and the remainder was denominated in Renminbi. The Group major sales costs and capital expenditure were denominated in Renminbi. The Board believes that although the exchange rate between US dollar and Renminbi was subject to certain fluctuations during the Year, the foreign currency risk facing the Group is limited. Therefore, the Group has not adopted any financial instrument for hedging purposes.

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 fulfill the business objectives as stated in the Prospectus, the Company needs to construct new production base and enhance production facilities. As at 31 December 2008, the Company has capital commitments of approximately RMB20,220,000, of which approximately RMB5,633,000 is for the contract sum under contracts for the construction of the production base and equipment purchase. The Board believes that such capital expenditure can be paid by the funds from the Company's bank borrowings. The relevant details are set out in note 31 to the financial statements.

CONTINGENT LIABILITY

As at 31 December 2008, 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 and establishing a joint venture company with GSK Pte as disclosed above, the Company did not make any other major investment.

HUMAN RESOURCES

As at 31 December 2008, the Company employed a total of 95 staff (2007: 242). During the Year, the staff costs including directors' remuneration which amounted to approximately RMB14,132,000 (2007: approximately RMB14,038,000). The salaries and fringe benefits of the Company's employees remained at competitive The employees' incentives were reviewed and determined annually pursuant to the remuneration and bonus policies of the Company based on the performance of the employees. The Company also provided various other benefits to its employees.

As at 31 December 2008, the number of employees of the Company categorized by various functions was set out as follows:

	As at 31 December	
	2008	2007
Research and development	15	19
Production	41	114
Quality control	48	31
Sales and marketing	13	29
Administration	78	49
Total	195	242

Management Discussion and Analysis

Compared with 31 December 2007, the number of employees in the sales and marketing division and the production division of the Company decreased by 16 and 73 respectively, whereas the number of employees in the administration division and the quality control division increased by 29 and 17 respectively in the Year. As the Company had completed transforming its sales model during the Year, most of the employees in branch offices were converted to the Company's product agents, but so far no labour relations involved would give rise to any legal disputes. During the Year, the Company's influenza vaccines manufacturing facilities with a designed annual capacity of 1 million doses located in Nanshan district was dormant, resulting in a significant decrease in the number of production staff. Meanwhile, the Company increased the number of employees significantly in the administration and quality control divisions of the Baoan production base with a view to boost the construction of the Baoan production base with reinforced human power.

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 47, 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 doctorate degree in philosophy in political economics from Nankai University of the PRC. Mr. Zhang is currently a delegate of the eleventh National People's Congress.

Mr. Chai Xiang Dong (柴向東), aged 48, has been appointed the general manager of the Company since February 2000, and is responsible for the Company's day-to-day management and overall activities. In April 2002, he was appointed a Director of the Company. Mr. Chai received his doctorate degree in chemistry from the Jilin University of the PRC, and was appointed a professor of the chemistry department of the Jilin University of the PRC.

NON-EXECUTIVE DIRECTORS

Ms. Yulin (于琳), aged 52, 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 more than 30 years of experience in biochemical and pharmaceutical industries in the PRC.

Mr. Ren De Quan (任德權), aged 64, 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 51, has been appointed as an independent non-executive Director of the Company since August 2005. Mr. Yick holds a bachelor degree in business administration, majoring in accounting, from the Chinese University of Hong Kong. He is 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 and chairman of the audit committee of Shanghai International Shanghai Growth Investment Limited, Travelsky Technology Limited and China Singyes Solar Technologies Holdings Limited, the shares of all of which are listed on the Main Board of the Hong Kong Stock Exchange., an independent non-executive director of China-Biotics, Inc, whose shares are listed on Nasdaq Global Market, and an independent non-executive director and the chairman of the audit committee of Beijing Centergate Technologies (Holding) Co., Ltd., whose shares are listed on the Shenzhen Stock Exchange in the PRC.

Directors, Supervisors and Senior Management Profile

Mr. Poon Ka Yeung (潘嘉陽), aged 42, has been an independent non-executive director of the Company since August 2005. Mr. Poon obtained his bachelor degree in mathematics with minor in economics and marketing from the Chinese University of Hong Kong in 1989 and was further admitted to the MBA degree by the University of Hull, United Kingdom, in 1996. Mr. Poon has been appointed as a Honorary Institute Fellow of the Asia-Pacific Institute of Business of the Chinese University of Hong Kong since April 2002. He has been teaching marketing-related subjects for the master degree in science program, MBA program and Global Executive MBA program (OneMBA) of the Chinese University of Hong Kong. Since June 2008, he has been appointed as visiting Adjunct Associate Professor in the Department of Marketing of the Chinese University of Hong Kong.

Mr. Lu Sun (魯隼), aged 47, has been an independent non-executive Director of the Company since August 2005. Mr. Lu obtained a bachelor degree in science and a doctorate degree in philosophy. Mr. Lu has abundant experience in the bio-pharmaceutical industry.

SUPERVISORS

Mr. Xiong Chu Xiong (熊楚熊), aged 53, has been a supervisor of the Company since June 2008. Mr. Xiong obtained a doctorate degree in accountancy from Xiamen University in 1992. Mr. Xiong was appointed as an independent director of Neptunus Bio-engineering up to August 2007. Mr. Xiong is currently the department head and professor of the Accounting Department of School of Economics of Shenzhen University, the independent director of Shahe Industry Company Limited, Shenzhen Laibao High-Tech Co., Ltd., Shenzhen Feima International Supply Chain Company Limited and Shenzhen Beauty Star Company Limited.

Mr. Xu An Long (徐安龍), aged 46, has been a supervisor of the Company since June 2008. Mr. Xu graduated from Sun Yat-Sen University and University of Illinois and obtained a bachelor degree in biology, master degree in immunogenetics, and a doctorate degree in molecular immunology. Mr. Xu is the Vice President and Dean of Faculty of Life Science of Sun Yat-Sen University and a professor and supervisor of doctor candidates. Mr. Xu has been awarded the Top Ten Outstanding Chinese Young Scientists Award. Mr. Xu was appointed as an independent director of Neptunus Bio-engineering up to August 2007. Mr. Xu is currently an independent director of Tongwei Company Limited.

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.

Directors, Supervisors and Senior Management Profile

SENIOR MANAGEMENT

Ms. Lee Mei Yi (李美儀), aged 41, has been appointed as a joint company secretary of the Company since 1 December 2008. Ms. Lee is a senior manager of Corporate Services Department of Tricor Services Limited and an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms. Lee has over 10 years of experience in the corporate secretarial area.

Mr. Huang Jian Bo (黃劍波), aged 33, has been appointed as a joint company secretary and an authorized representative of the Company since 1 December 2008. Mr. Huang graduated from College of Accounting at Hunan University with a bachelor degree in economics; Mr. Huang has been the secretary to the Board of the Company since 2007.

Ms. Xu Jing（徐靜), aged 32, has been appointed as the qualified accountant of the Company since 1 December 2008. Ms. Xu graduated from Zhongnan University of Economics and Law with a bachelor degree in accountancy. Ms. Xu has been the financial controller of the Company since June 2007. She is a member of the Association of Chartered Certified Accountants, a member of the Chinese Institute of Certified Public Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Song Ting Jiu (宋廷久), aged 53, 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 Xue Ying (代雪英), aged 46, 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.

Ms. Sun Tao (孫濤), aged 42, 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 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 55, 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.He has been appointed as an assistant to the vice-president in charge of production of the Company since February 2008 and is responsible for influenza vaccine engineering.

Ms. Yu Chai Ling (余彩玲), aged 41, obtained a bachelor degree in biology from Sichuan University, the PRC in 1989. Ms. Yu joined the Company in March 1996 and served as a manager in the production department and the production controller of the Company. She has been appointed as an assistant to the vice-president in charge of production of the Company since February 2008 and is responsible for influenza vaccine production.

Report of the Directors

The Board is pleased to present the report of directors and the consolidated financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is a high and new technology enterprise incorporated in the PRC. During the Year, the Group was principally engaged in the research and development of modern biological technology, production and sale of cytokine therapeutic drugs and sale of vaccines for infectious diseases in the PRC.

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 2008, and the published consolidated results and assets and liabilities of the Group for this Year is set out on pages 44 to 110.

DIVIDENDS

The Directors do not recommend the distribution of any dividends for the Year (2007: Nil).

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 2008, the Company 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 RMB69,058,000.

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 THE LISTED SHARES OF THE COMPANY

The H shares of the Company were listed on GEM since 12 September 2005. Save for the placing of shares on GEM board, the Company and its subsidiary did not purchase, sell or redeem any of the Company's listed shares during the Year. The Company and its subsidiary also did not redeem, purchase or cancel any of their redeemable securities.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for 42.2% of the total sales for the Year and sales to the largest customer included therein amounted to 20.7%. Purchases from the Group's five largest suppliers accounted for 38.7% of the total purchases for the Year and purchases from the largest supplier included therein 19.7%.

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.

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 2008
Mr. Chai Xiang Dong	3 years from his re-appointment on 25 June 2008
Ms. Wang Yan	3 years from her appointment on 25 June 2005 (Ms. Wang retired on 25 June 2008)

Non-executive Directors

Mr. Ren De Quan	3 years from his re-appointment on 25 June 2008
Ms.Yu Lin	3 years from her re-appointment on 25 June 2008

Independent non-executive Directors

Mr. Yick Wing Fat, Simon	3 years from his re-appointment on 25 June 2008
Mr. Poon Ka Yeung	3 years from his re-appointment on 25 June 2008
Mr. Lu Sun	3 years from his re-appointment on 25 June 2008

Report of the Directors

Supervisors

Mr. Xu An Long	3 years from his appointment on 25 June 2008
Mr. Xiong Chu Xiong	3 years from his appointment on 25 June 2008
Mr. Yu Jun	3 years from his re-appointment on 25 June 2008
Mr. Shen Da Kai	3 years from his appointment on 25 June 2005 (Mr. Shen retired on 25 June 2008)
Mr. Feng Jia Xin	3 years from his appointment on 25 June 2005 (Mr. Feng retired on 25 June 2008)

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 2011 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 shall pay the supervisors Mr. Xiong Chu Xiong, Mr. Xu An Long and Mr. Yu Jun the remuneration of RMB30,000, RMB30,000 and RMB20,000 per annum respectively.

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 2008, the interests and short position of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the "required standard of dealings" for directors as set out in Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company:

Director/supervisor	Capacity	Type of interests	Number of Domestic Shares held	Approximate percentage of all the Domestic Shares	Approximate percentage of the Company's issued share capital
Mr. Chai Xiang Dong *(Note (a))*	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Mr. Yu Jun *(Note (b))*	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

(a) Executive Director and general manager of the Company

(b) Supervisor and employee of the Company

Long positions in shares of associated corporations of the Company:

Director	Capacity	Type of interests	Name of associated corporation	Number of shares in associated corporation	Approximate percentage of the associated corporation's issued share capital
Mr. Zhang Si Min *(Note (a))*	Beneficial owner	Personal	Neptunus Bio-engineering	360,693	0.055%
Mr. Zhang Si Min *(Note (b))*	Beneficial owner	Personal	Ankeen Enterprises Limited ("Ankeen Enterprises")	15	15%
Ms. Yu Lin *(Note (c))*	Beneficial owner	Personal	Neptunus Bio-engineering	79,864	0.012%

Notes:

(a) Mr. Zhang Si Min was beneficially interested in 0.055% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn was beneficially interested in approximately 67.5% of the issued share capital of the Company as at 31 December 2008.

(b) Mr. Zhang Si Min held 15% of the issued capital of Ankeen Enterprises, which in turn was beneficially interested in approximately 41.9% of the entire share capital of Neptunus Group, which in turn was beneficially interested in approximately 32.535% of the entire share capital of Neptunus Bio-engineering. Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group. Neptunus Group was in turn beneficially interested in approximately 67.5% of the share capital of the Company as at 31 December 2008.

(c) Ms. Yu Lin was beneficially interested in 0.012% of the issued share capital of Neptunus Bio-engineering, which in turn was beneficially interested in approximately 67.5% of the issued share capital of the Company as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, none of the Directors, supervisors or chief executives of the Company nor their respective associates held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the "required standard of dealings" for directors as set out in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME, CONVERTIBLE SECURITIES AND WARRANTS

Up to 31 December 2008, the Company and its subsidiaries have not adopted any share option scheme and have not granted any option, convertible securities, warrants or other similar rights.

DIRECTORS' AND SUPERVISORS' SHARE OPTIONS, WARRANTS OR CONVERTIBLE BONDS

At any time during the Year, none of the Directors or supervisors of the Company or their respective spouse or minor children were granted any share options, warrants or convertible bonds of the Company, its subsidiaries or associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as the Directors and supervisors of the Company are aware, as at 31 December 2008, the interests and/or short positions held by shareholders (not being a Director, a supervisor or a chief executive of the Company) in shares or underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO were as follows:

Long positions in the shares of the Company:

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

Report of the Directors

Notes:

(a) Neptunus Group was deemed to be interested in 639,000,000 domestic shares held by Neptunus Bio-engineering as Neptunus Group was beneficially interested in approximately 32.535% of the entire issued share capital of Neptunus Bio-engineering and Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group.

(b) Ankeen Enterprises was deemed to be interested in 639,000,000 domestic shares 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 32.535% of the entire issued share capital of Neptunus Bio-engineering. Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group.

(c) Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in 639,000,000 domestic shares held by Neptunus Bioengineering as Ms. Wang was beneficially interested in 85% of the entire issued share capital of Ankeen Enterprises, which in turn was beneficially interested in approximately 41.9% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 32.535% of the entire issued share capital of Neptunus Bio-engineering, Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group.

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

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2008, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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 Pharmaceutical on 28 December 2002 and 1 April 2004 respectively pursuant to which Neptunus Pharmaceutical 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, pursuant to Rule 20.33(3) of the GEM Listing Rules, the above transactions were not subject to any reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

(ii) *Property lease*

Factory

On 1 January 2008, 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 2008 and expiring on 31 December 2008 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 2008, the aggregate rental paid by the Company to Neptunus Pharmaceutical amounted to approximately RMB120,480.

On 1 January 2008, 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 1 January 2008 and expiring on 31 December 2008 (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 2008 was waived by Tongai Phamaceutical under a waiver agreement signed 13 February 2009.

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% on an annual basis, pursuant to Rule 20.33(3) of the GEM Listing Rules, the above transactions were not subject to any reporting, announcement or independent 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 in the section headed "Material Related Party Transactions" in note 30 to the financial statement.

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, pursuant to Rule 20.65(4) of the GEM Listing Rules such financial assistance was exempt from any reporting, announcement and independent shareholders' approval requirements.

Continuing Connected Transactions Exempt from Independent Shareholders' Approval Requirements

The continuing connected transactions exempt from independent shareholders' approval requirements under Rule 20.34 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 entered into a service agreement ("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 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 manufacture of influenza vaccines in the factory located at the Neptunus Industrial Complex (the "Supplementary Agreement"). The term of the Service Agreement is from 21 August 2005 to 31 December 2007. Pursuant to the terms of the Service Agreement and the Supplementary Agreement, given that the Company does not exercise the right to terminate the Supplementary Agreement and is in compliance with the relevant GEM Listing Rules, the Service Agreement will be automatically renewed on the same terms for three years upon expiry.

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.

Report of the Directors

Under the Supplementary 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 labour 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 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.

Service Agreement and Supplementary Agreement expired on 31 December 2007 and on the same day both parties agreed to renew them for 3 years on the same terms. The Board is of the opinion that the Company has renewed Service Agreement and Supplement 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 (the "Continuing Connected Transactions Announcement") on 2 February 2008 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 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 2009 and 2010 will represent approximately 22.5% and 22.5% of the estimated total production cost of the Company respectively.

During the Year, the Company has, according to the Service Agreement, paid to Neptunus Pharmaceutical aggregate service fees of approximately RMB1,702,000, accounting for approximately 11.2% of the Company's total production expenses. Such actual service fees paid do not exceed the annual cap as disclosed in the Continuing Connected Transactions Announcement.

The Board also considers the above service agreements signed between the Company and Neptunus Pharmaceutical to be contracts of significance between the Company and its fellow subsidiary 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 business 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 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 caps as disclosed in the Company's announcement in relation to the continuing connected transactions; 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

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

COMPETING INTERESTS

On 21 August 2005, Neptunus Bio-engineering 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

The former auditor of the Company was Ernst & Young ("EY"). EY tendered its resignation on 25 July 2007.

The financial statements were audited by CCIF CPA Limited, Certified Public Accountants, who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as auditors of the Company is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Zhang Si Min
Chairman

Shenzhen, the PRC

26 April 2009

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 Board is of the view that the Company has complied with the requirements set out in Appendix 15 "The Code on Corporate Governance Practices" and Appendix 16 "Corporate Governance Report" 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" as 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 violation by the Directors on the "required standard of dealings" and the Company's internal 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 2008, the Board comprised seven Directors, including two 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 19 to 21. The independence of an independent non-executive Director may only be established upon confirmation by the Board that such Director does not have any other direct or indirect relationship with the Company.

Details of the attendances of the Board are as follows:

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

Note: Ms. Wang Yan retired as an executive director of the Company for personal reasons on 25 June 2008. The Company held a total of 2 Board meetings prior to her retirement.

(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.

One meeting of the Remuneration Committee was held during the Year.

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

(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 RMB1,863,000 (2007: RMB1,588,000) was charged to the Company's income statement for the Year as follows:

Services rendered	**Fee paid / payable Approximately** RMB
Audit services (2007: approximately RMB1,053,000)	1,170,000
Other services	693,000
Total:	1,863,000

(H) AUDIT COMMITTEE

The Company had established an Audit Committee on 21 August 2005. 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 Board has 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 modifications will be made to the management system of the Company according to the findings and recommendations therein.

(K) GOING CONCERN

When preparing for the financial report, the Board has 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 Board has adopted the following measures:

(a) The Company is actively considering a placing of H shares.

(b) On 2 March 2009, the Company, Neptunus Bio-engineering and Neptunus Pharmaceutical entered into a Letter of Intent in relation to the acquisition by the Company of the 75% and 5% equity interests in Neptunus Fuyao held respectively by Neptunus Bio-engineering and Neptunus Pharmaceutical. If formal transactions are agreed by the parties, it will bring additional cash inflow and profits to the Company.

(c) On 2 December 2008, Neptunus Bio-engineering, the Company's parent company, undertook to the Company that it would provide the Company with suitable financial assistance of up to RMB 30,000,000 to enable the Company's going concern in 2009 if the Company's working capital is not sufficient to meet its current need.

(d) During the Year, the Company entered into the Cooperation Agreement with GSK for the purpose of introducing GSK's world leading manufacturing technology of influenza vaccines, adjuvant system and quality management system to develop more influenza vaccines products. Currently, the prime business objective of the Group is to procure the signing of the JV Contract and the establishment of the JV Company between the Company and GSK Pte as soon as possible. The establishment of the JV company will bring additional profits and cash inflow recourses to the Company in the long term.

(e) On 2 December 2008, Neptunus Bio-engineering undertook to the Company that it would provide the Company with a new entrusted loan amounted to RMB60,000,000 to support the cooperation between the Company and GSK. The length of maturity of this entrusted loan would be one year at least or no earlier than the date of the 15th working day after completion of the H shares placement (whichever is earlier).

(f) On 15 April 2009, a Consolidated Credit Facilities Agreement(《綜合授信額度合同》)was entered into between Neptunus Bio-engineering and Longgang Branch of Shenzhen Development Bank Company Limited ("SDB"), and a Maximum Amount of Pledge Guarantee Agreement (《最高額抵押擔保合同》) was entered into among Neptunus Bio-engineering and Neptunus Pharmaceutical and SDB, under which Neptunus Bio-engineering and Neptunus Pharmaceutical provided guarantee for the pledges with their self-owned properties. SDB granted consolidated credit facilities of RMB40 million to Neptunus Bio-engineering, and Neptunus Bio-engineering had transferred RMB30 million of the credit facilities to the Company, the credit facilities will expire by 2010. After receiving such credit facilities, the Company is in the process of application to SDB for a consolidated credit loan of RMB30 million for a term of one year and the relevant procedures are being pursued. The lending interest rate of such loan is determined by referring to the benchmark lending interest rate of similar loan category of the People's Bank of China. The Company has not pledged any assets of the Company to SDB or Neptunus Bio-engineering or Neptunus Pharmaceutical for the loan, and the above financial assistance was entered into on normal commercial terms (or better terms to the Company).

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 "Article 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
Xiong Chu Xiong
Chairman of Supervisory Committee

Shenzhen, the PRC
26 April 2009

INDEPENDENT AUDITOR'S REPORT

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

INDEPENDENT AUDITOR'S REPORT 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 44 to 110, which comprise the consolidated and Company balance sheets as at 31 December 2008 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 2008 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 approximately RMB30,595,000, net current liabilities of approximately RMB31,180,000 and net cash decrease in cash and cash equivalents of RMB34,877,000 during the year. In addition, as further disclosed in note 31(a) to the financial statements, as at 31 December 2008, the Group had contracted commitments in respect to future capital expenditure of approximately RMB20,220,000. 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, 26 April 2009

Alvin Yeung
Practising Certificate Number P05206

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
TURNOVER	3, 12	**16,310**	16,160
COST OF SALES		**(7,477)**	(5,103)
GROSS PROFIT		**8,833**	11,057
OTHER REVENUE	4	**2,650**	3,347
Selling and distribution expenses		**(3,242)**	(3,897)
Administrative expenses		**(13,047)**	(17,088)
Other operating expenses		**(20,234)**	(12,270)
LOSS FROM OPERATIONS		**(25,040)**	(18,851)
Finance costs	5(a)	**(5,831)**	(2,541)
LOSS BEFORE TAXATION	5	**(30,871)**	(21,392)
Income tax	6(a)	**276**	225
LOSS FOR THE YEAR		**(30,595)**	(21,167)
Attributable to:			
Equity shareholders of the Company		**(30,595)**	(21,167)
Dividends payable to equity shareholders of the Company attributable to the year:	10	**—**	—
Loss per share			
Basic	11	**RMB(3.23) cents**	RMB(2.24) cents
Diluted	11	**RMB(3.23) cents**	RMB(2.24) cents

The notes on pages 52 to 110 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**256,978**	224,361
Interest in leasehold land held for own use under operating lease	14	**8,434**	8,615
Intangible assets	15	**23,297**	23,835
Prepayments for purchase of technical know-how	16	**—**	6,573
Deferred tax assets	23	**726**	450
		289,435	263,834
CURRENT ASSETS			
Inventories	18	**1,994**	11,912
Trade and other receivables	19	**3,926**	10,980
Pledged deposits	20	**—**	418
Cash and cash equivalents	20	**3,773**	38,650
		9,693	61,960
CURRENT LIABILITIES			
Trade and other payables	21	**24,531**	13,554
Interest-bearing bank borrowings	22	**14,000**	37,000
Tax payable	23	**2,342**	2,342
		(40,873)	(52,896)
NET CURRENT (LIABILITIES)/ASSETS		**(31,180)**	9,064
TOTAL ASSETS LESS CURRENT LIABILITIES		**258,255**	272,898

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	**2008**	2007
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**106,000**	120,000
Entrusted loans from immediate parent company	24	**78,000**	48,000
Deferred revenue	25	**3,393**	3,441
		(187,393)	(171,441)
NET ASSETS		**70,862**	101,457
CAPITAL AND RESERVES			
Share capital	26	**94,667**	94,667
Reserves	27	**(23,805)**	6,790
TOTAL EQUITY		**70,862**	101,457

Approved and authorised for issue by the board of directors on 26 April 2009

Zhang Si Min
Director

Chai Xiang Dong
Director

The notes on pages 52 to 110 form part of these financial statements.

BALANCE SHEET

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**256,978**	224,361
Interest in leasehold land held for own use under operating leases	14	**8,434**	8,615
Intangible assets	15	**23,297**	23,835
Investment in a subsidiary	17	**1,040**	1,040
Prepayments for purchase of technical know-how	16	**—**	6,573
Deferred tax assets	23	**726**	450
		290,475	264,874
CURRENT ASSETS			
Inventories	18	**1,994**	11,912
Trade and other receivables	19	**3,937**	10,980
Pledged deposits	20	**—**	418
Cash and cash equivalents	20	**3,696**	38,447
		9,627	61,757
CURRENT LIABILITIES			
Trade and other payables	21	**24,531**	13,812
Interest-bearing bank borrowings	22	**14,000**	37,000
Tax payable	23	**2,342**	2,342
		(40,873)	(53,154)
NET CURRENT (LIABILITIES)/ASSETS		**(31,246)**	8,603
TOTAL ASSETS LESS CURRENT LIABILITIES		**259,229**	273,477

BALANCE SHEET

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**106,000**	120,000
Entrusted loans from immediate parent company	24	**78,000**	48,000
Deferred revenue	25	**3,393**	3,441
		(187,393)	(171,441)
NET ASSETS		**71,836**	102,036
CAPITAL AND RESERVES			
Share capital	26	**94,667**	94,667
Reserves	27	**(22,831)**	7,369
TOTAL EQUITY		**71,836**	102,036

Approved and authorised for issue by the board of directors on 26 April 2009

Zhang Si Min
Director

Chai Xiang Dong
Director

The notes on pages 52 to 110 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2008

	Attributable to equity shareholders of the Company				
	Share capital RMB'000 *(Note 26)*	**Share premium RMB'000** *(Note 27)*	**Statutory reserve fund RMB'000** *(Note 27)*	**Accumulated losses RMB'000**	**Total RMB'000**
At 1 January 2007	94,667	41,923	3,330	(17,296)	122,624
Loss for the year	—	—	—	(21,167)	(21,167)
At 31 December 2007 and 1 January 2008	94,667	41,923	3,330	(38,463)	101,457
Loss for the year	—	—	—	(30,595)	(30,595)
At 31 December 2008	**94,667**	**41,923**	**3,330**	**(69,058)**	**70,862**

The notes on pages 52 to 110 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(30,871)**	(21,392)
Adjustments for:		
Depreciation	**3,640**	4,666
Amortisation of interest in land held for own use under operating lease	**181**	181
Amortisation of intangible assets	**2,696**	3,004
Impairment of intangible assets	**6,165**	2,096
Recovery of doubtful debts	**(1,780)**	(2,015)
Finance costs	**5,831**	2,541
Interest income	**(135)**	(800)
Subsidy income released from deferred revenue	**(348)**	(348)
Loss on disposal of property, plant and equipment	**67**	—
Operating loss before changes in working capital	**(14,554)**	(12,067)
Decrease/(increase) in inventories	**9,918**	(9,590)
Decrease/(increase) in trade and other receivables	**8,834**	(2,811)
Increase/(decrease) in trade and other payables	**10,977**	(4,990)
	29,729	(17,391)
Cash generated from/(used in) operations	**15,175**	(29,458)
Income tax paid - PRC	**—**	(55)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**15,175**	(29,513)
INVESTING ACTIVITIES		
Payment for the purchase of property, plant and equipment	**(36,387)**	(45,559)
Payment for intangible assets	**(8,323)**	(115)
Proceeds from disposal of property, plant and equipment	**63**	—
Decrease in prepayment for purchase of technical know-how	**6,573**	—
Decrease in pledged bank deposits	**418**	3,615
Interest received	**135**	800
Subsidy income received	**300**	—
NET CASH USED IN INVESTING ACTIVITIES	**(37,221)**	(41,259)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008	2007
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Proceeds from new bank loans	**—**	30,000
Repayment of bank loans	**(37,000)**	(3,000)
Proceeds from entrusted loans from immediate parent company	**30,000**	48,000
Interest paid	**(5,831)**	(2,541)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	**(12,831)**	72,459
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(34,877)**	1,687
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**38,650**	36,963
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**3,773**	38,650

The notes on pages 52 to 110 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 (together the "Group") is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on 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 approximately RMB30,595,000 (2007: approximately RMB21,167,000), net current liabilities of approximately RMB31,180,000 (2007: net current assets of approximately RMB9,064,000) and net decrease in cash and cash equivalents of RMB34,877,000 (2007: net increase in cash and cash equivalents of approximately RMB1,687,000). In addition, as further disclosed in note 31(a) to the financial statements, as at 31 December 2008, the Group has contracted commitments for future capital expenditure of approximately RMB20,220,000 (2007: RMB23,838,000).

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

On 2 December 2008, the immediate parent company of the Group Neptunus Bio-engineering agreed to provide the following facilities to the Group:

i) The immediate parent company agreed to provide a further entrusted loan of RMB60,000,000 to the Group (the "New Borrowings") to finance for the new project with GlaxoSmithKline. The repayment term of the New Borrowings will be more than 1 year or within 15 working days after the completion of the Group's fund raising, if any, to be done in future (whichever is earlier).

   On 15 April 2009, a Consolidated Credit Facilities Agreement (綜合授信額度合同) was entered into between the immediate parent company and Longgang Branch of Shenzhen Development Bank Company Limited ("SDB"), and a Maximum Amount of Pledge Guarantee Agreement (最高額抵押擔保合同) was entered into among the immediate parent company, a fellow subsidiary and SDB, under which the immediate parent company and the fellow subsidiary provided guarantee for the pledges with their self-owned properties. SDB granted a credit facilities of RMB40 million to the immediate parent company, and the immediate parent company transferred RMB30 million of the credit facilities to the Company, the credit facilities will expire by 2010. The Company has not pledged any assets of the Company to SDB, the immediate parent company or the fellow subsidiary for the loan.

ii) For the existing three entrusted loans (the "Entrusted Loans") with a total amount of RMB78,000,000 (2007: RMB48,000,000) provided by the immediate parent company during the year (note 30(b)(i)), the repayment date is extended to not less than one year or within 15 working days after the completion of the Group's fund raising, if any, to be done in future (whichever is earlier).

iii) In addition to (i) and (ii) above, the immediate parent company indicated its intention, to provide further stand-by facilities of RMB30,000,000 to the Group when required. The stand-by facilities will be given in the form of an entrusted loan. The repayment term of the entrusted loan will be more than 1 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. 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 2008 comprise the Company and its subsidiary.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The measurement basis used in the preparation of the financial statement is the historical cost basis. These financial statements are presented in Renminbi ("RMB") and it is also the functional currency of the Company and its subsidiary and all values are rounded to the nearest thousand except where 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

c) SUBSIDIARY

A subsidiary is an entity 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(g)), 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(g)).

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:

Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	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 buildings, plant and machinery and equipment under construction, which is stated at cost less any impairment losses. 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 substantially completed. Depreciation of these assets, on the same basis as other property assets, commences when the assets are available for use.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) 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 netting off directly related subsidies), where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(g)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets with finite useful lives acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(g)). Expenditure on internally generated 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 its 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.

f) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) LEASED ASSETS (continued)

i) *Classification of assets leased to the Group*

Assets held by 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 asset, 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, and 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 that 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(g). 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 charged to profit or loss in 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) IMPAIRMENT OF ASSETS

i) Impairment of receivables

Current and non-current receivable that are stated at cost or amortized cost 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; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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 the 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) IMPAIRMENT OF ASSETS (continued)

i) *Impairment of receivables* (continued)

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.

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 income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) IMPAIRMENT OF ASSETS (continued)

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;

– interest in leasehold land held for own use under operating leases;

– intangible assets; and

– investment in a subsidiary.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lifes, 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 fair value less costs to sell 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. 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).

– 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) IMPAIRMENT OF ASSETS (continued)

ii) *Impairment of other assets* (continued)

– 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(g)).

Impairment losses recognised in an interim period in respect of goodwill 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)

h) 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.

i) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for 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 doubtful debts (see note 1(g)).

j) 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

k) TRADE AND OTHER PAYABLES

Trade and other payables 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) 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.

m) EMPLOYEE BENEFITS

i) Short-term employee benefits and contributions to central pension scheme

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 contributions 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.

Salaries, annual bonuses, paid annual leave, contributions to central pension scheme and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Termination benefits

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

n) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) INCOME TAX (continued)

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 differences, 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 differences 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 subsidiaries 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.

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 is recognised.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) INCOME TAX (continued)

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.

o) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for 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)

p) 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 goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

*ii) **Interest income***

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

*iii) **Government subsidies***

Government subsidies is recognised 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.

q) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) 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 grants (see note 1(u)), 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.

s) 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; or

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)

t) 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.

u) 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 net off against directly related borrowing cost (see note 1(r)), 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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has where applicable applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior adjustment is required.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standard[3]
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS39 (Amendments)	Embedded Derivatives[6]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for annual periods beginning on or after 30 June 2009
7 Effective for transfers of assets from customers received on or after 1 July 2009

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The Company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. TURNOVER

The principal activities of the Group are the research and development of modern biological technology, production and sales of cytokine therapeutic drugs and sale 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 and after allowances for returns and trade discounts.

	2008	2007
	RMB'000	RMB'000
Sales of medicines	**16,310**	16,160

4. OTHER REVENUE

	2008	2007
	RMB'000	RMB'000
Interest income on bank deposits	**135**	800
Total interest income on financial assets not at fair value through profit or loss	**135**	800
Subsidy income released from deferred revenue – note 25	**348**	348
Recovery of doubtful debts* – note 19	**1,780**	2,015
Others	**387**	184
	2,650	3,347

* During the year, the Group engaged a solicitor in the PRC, an independent third party, for the collection of long outstanding trade receivables. The solicitor succeeded in recovering approximately RMB1,780,000 (2007: RMB2,015,000) of doubtful debts for the Group.

5. LOSS BEFORE TAXATION

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

	2008	2007
	RMB'000	RMB'000
a) Finance costs:		
Interest on bank loans wholly repayable within five years	**453**	1,490
Interest on bank loans wholly repayable after five years	**9,901**	8,967
Interest on entrusted loans from immediate parent company	**3,954**	1,443
Total interest expense on financial liabilities not at fair value through profit or loss	**14,308**	11,900
Less: Government grant for compensation of loan interest expense *	**(2,454)**	(6,000)
	11,854	5,900
Less: Interest expense capitalized as cost of construction in progress (note 13)	**(6,023)**	(3,359)
	5,831	2,541

* During the year ended 31 December 2008, the Company received a grant of RMB2,454,000 (2007: RMB6,000,000) from Shenzhen Bureau of Finance and Shenzhen Bureau of Trade and Industry to subsidize interest arising from loan borrowed by the Company for improvement of the plant for the production of influenza vaccine, incurred by the Company during the year of grant. The subsidies were made to selected companies in Shenzhen to encourage companies to improve their production technology in different industries. The grant is unconditional and not repayable and there were no unfulfilled conditions or 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)

		2008 RMB'000	2007 RMB'000
b)	Staff costs:		
	Contributions to defined contribution retirement plan	**496**	845
	Salaries, wages and other benefits (including directors' emoluments)	**7,170**	11,054
		7,666	11,899
c)	Other items:		
	Amortisation		
	– interest in leasehold land held for own use under operating lease	**181**	181
	– intangible assets *	**2,696**	3,004
	Depreciation		
	– assets held for own use under operating leases	**359**	376
	– other assets	**3,281**	4,290
	Impairment of		
	– intangible assets *	**6,165**	2,096
	– trade receivables *	**249**	—
	Write-down of inventories *	**1,947**	—
	Net foreign exchange loss	**84**	95
	Loss on disposal of property, plant and equipment *	**67**	—
	Auditor's remuneration		
	– audit services	**1,173**	1,053
	– other services	**693**	535
	Operating lease charges: minimum lease payments	**167**	806
	Cost of inventories	**7,477**	5,103
	Research and development costs *	**8,236**	8,423

* These amounts 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:

	2008	2007
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax	**—**	—
Deferred tax		
Origination and reversal of temporary differences (Note 23(b))	**276**	225
	276	225

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

The PRC enterprise income tax (the "EIT") for the year ended 31 December 2008 is 25% (2007: 7.5%). The EIT has not been provided for as the Group has incurred loss for the year.

On 16 March 2007, the PRC government 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 PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations has changed the tax rate from 33% to 25% from 1 January 2008.

The Company is located in the Shenzhen Special Economic Zone and as a high technology enterprise, the Company is therefore subject to an enterprise income tax rate of 15%. In accordance with the relevant income tax laws and regulations in the PRC, the Company is exempted from EIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax exemption for the years ended 31 December 2005, 2006 and 2007.

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

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

	2008	2007
	RMB'000	RMB'000
Loss before taxation	**(30,871)**	(21,392)
Notional tax on loss before taxation, calculated at the rates applicable to profits on the tax jurisdictions concerned	**(7,685)**	(7,059)
Lower tax rate for specific provinces or local authority	**—**	5,455
Tax effect of non-deductible expenses	**3,736**	752
Tax effect of non-taxable income	**(532)**	(177)
Tax effect of unused tax losses not recognized	**4,397**	1,254
Increase in opening deferred tax assets resulting from an increase in applicable tax rate	**360**	—
Tax credit	**276**	225

7. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended 31 December 2008 disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2008 Total RMB'000
Executive directors				
Mr. Zhang Si Min	100	—	—	100
Mr. Chai Xiang Dong	300	322	11	633
Ms. Wang Yan (Resigned on 25 June 2008)	50	—	—	50
Non-executive directors				
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
	1,174	322	11	1,507

7. DIRECTORS' EMOLUMENTS (continued)

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

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2007 Total RMB'000
Executive directors				
Mr. Zhang Si Min	100	—	—	100
Mr. Chai Xiang Dong	500	103	10	613
Ms. Wang Yan (Resigned on 25 June 2008)	100	314	6	420
Non-executive directors				
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
	1,424	417	16	1,857

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2007: two) were directors of the Company whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining three (2007: three) individuals were as follows:

	2008	2007
	RMB'000	RMB'000
Salaries and other benefits	**1,152**	1,151
Retirement scheme contribution	**29**	27
	1,181	1,178

Their emoluments were all within the band RMB Nil to RMB1,000,000, for years ended 31 December 2008 and 2007.

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB30,200,000 (2007: RMB20,720,000) 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 years ended 31 December 2008 in view of the losses for the respective years (2007: nil).

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 RMB30,595,000 (2007: RMB21,167,000) and the weighted average number of 946,670,000 ordinary shares (2007: 946,670,000 ordinary shares) in issue during the year.

b) Diluted loss per share

Diluted loss per share equals to basic loss per share as there were no potential dilutive ordinary shares outstanding for all periods presented.

12. SEGMENT REPORTING

The Group conducts its business within one business segment, that is the business of manufacturing and selling medicine products. Accordingly, no business segment information is presented. The Group also operates within one geographical segment namely 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 2008

	PRC	**Pakistan**	**Others***	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Segment revenue:				
Sales to external customers	**12,534**	**3,369**	**407**	**16,310**

Year ended 31 December 2007

	PRC	Pakistan	Others*	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	13,346	2,430	384	16,160

* Others included Indonesia and Hong Kong.

13. PROPERTY, PLANT AND EQUIPMENT

a) The Group and the Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
At cost						
At 1 January 2008	23,046	33,814	2,215	8,626	172,801	240,502
Additions	—	543	251	364	35,229	36,387
Disposals	—	(617)	—	(156)	—	(773)
Transfer in/(out)	106,162	1,564	—	—	(107,726)	—
At 31 December 2008	129,208	35,304	2,466	8,834	100,304	276,116
Accumulated depreciation						
At 1 January 2008	(460)	(10,764)	(1,130)	(3,787)	—	(16,141)
Charge for the year	(359)	(2,213)	(420)	(648)	—	(3,640)
Written back on disposal	—	504	—	139	—	643
At 31 December 2008	(819)	(12,473)	(1,550)	(4,296)	—	(19,138)
Net book value						
At 31 December 2008	128,389	22,831	916	4,538	100,304	256,978

13. PROPERTY, PLANT AND EQUIPMENT (continued)

a) The Group and the Company (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
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)
Net book value						
At 31 December 2007	22,586	23,050	1,085	4,839	172,801	224,361

During the year, net borrowing costs capitalized after deducting government subsidy of RMB2,454,000 (2007: approximately RMB6,000,000), amounted to approximately RMB6,023,000 (2007: approximately RMB3,359,000) (note 5). Such costs related to funds borrowed specifically for the purpose of the above construction-in-progress.

At 31 December 2008, certain of the Group's buildings, equipment and construction-in-progress with a net book value of RMB184,492,000 (2007: RMB177,148,000) were pledged to secure the Group's bank loan of RMB120,000,000 (2007: RMB127,000,000) (note 22). The pledge of the Company's buildings, equipment and construction-in-progress were released on 24 February 2009, refer to note 34(c) for details.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Outside Hong Kong:		
– medium-term leases	**136,823**	31,201
Representing:		
Buildings carried at cost	**128,389**	22,586
Interest in leasehold land held for own use under operating leases - note 14	**8,434**	8,615
	136,823	31,201

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

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
At cost		
At 1 January and 31 December	**9,037**	9,037
Accumulated amortisation		
At 1 January	**(422)**	(241)
Charge for the year	**(181)**	(181)
At 31 December	**(603)**	(422)
Net book value		
At 31 December	**8,434**	8,615

At 31 December 2008, the interest in leasehold land held for own use under operating lease with a net book value of approximately RMB8,434,000 (2007: approximately RMB8,615,000) had been pledged to secure the Group's bank loan of RMB120,000,000 (2007: RMB127,000,000) (note 22). The pledge of the interest in leasehold land held for own use under operating lease was released on 24 February 2009, refer to note 34(c) for details.

15. INTANGIBLE ASSETS

The Group and the Company

	Technical know-how					
	Internally developed RMB'000	**Acquired RMB'000**	**Sub-total RMB'000**	**Computer software RMB'000**	**Trademark RMB'000**	**Total RMB'000**
Cost						
At 1 January 2008	**23,001**	**13,070**	**36,071**	**354**	**75**	**36,500**
Addition through internal development	**1,948**	**—**	**1,948**	**—**	**—**	**1,948**
Acquired from third parties	**—**	**6,373**	**6,373**	**2**	**—**	**6,375**
	24,949	**19,443**	**44,392**	**356**	**75**	**44,823**
Accumulated amortisation and impairment						
At 1 January 2008	**(10,771)**	**(1,743)**	**(12,514)**	**(125)**	**(26)**	**(12,665)**
Charge for the year	**(1,272)**	**(1,307)**	**(2,579)**	**(109)**	**(8)**	**(2,696)**
Impairment for the year	**(4,410)**	**(1,755)**	**(6,165)**	**—**	**—**	**(6,165)**
At 31 December 2008	**(16,453)**	**(4,805)**	**(21,258)**	**(234)**	**(34)**	**(21,526)**
Carrying amount						
At 31 December 2008	**8,496**	**14,638**	**23,134**	**122**	**41**	**23,297**

15. INTANGIBLE ASSETS (continued)

The Group and the Company (continued)

	Technical know-how					
	Internally developed RMB'000	Acquired RMB'000	Sub-total RMB'000	Computer software RMB'000	Trademark RMB'000	Total 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

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

* Except for technical know-how with a net book value at 31 December 2008 of approximately RMB8,496,000 (2007: approximately RMB12,230,000), 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 of the above intangible assets are assessed as having finite useful lives.

15. INTANGIBLE ASSETS (continued)

The major technical know how is the influenza vaccine, which is registered in PRC, with a carrying amount of approximately RMB16,735,000 (2007: approximately RMB18,595,000) and the remaining amortisation period is 7 years (2007: 8 years).

The recoverable amount of the technical know-how approximately RMB23,134,000 (2007: RMB23,557,000) has been assessed based on a value-in-use calculation using the discount rate of 20% - 25% (2007: 18.5% - 20.5%) performed by an independent professional valuer – RHL Appraisal Limited, who have among their staff, fellow members of the Hong Kong Institute of Surveyors. Due to the current unfavorable economic situation, and the decrease in demand of certain products, the carrying amount of the technical know-how was written down by RMB6,165,000 (2007: RMB2,096,000) (included in "other operating expenses").

16. PREPAYMENTS FOR PURCHASE OF TECHNICAL KNOW-HOW

The prepayments for purchase of technical know-how mainly relate to Vero Rabies Purified Vaccine, which is registered in PRC and were recognized as intangible assets during the year ended 31 December 2008.

In 2007, the recoverable amount of the technical know-how has been assessed based on a value-in-use calculation using the discount rate of 18.5% - 20.5% performed by an independent professional valuer – RHL Appraisal Limited, who have among their staff, fellow members of the Hong Kong Institute of Surveyors. Based on this assessment, amount of prepayments for purchase of technical know-how was not considered as impaired.

17. INVESTMENT IN A SUBSIDIARY

	2008	2007
	RMB'000	RMB'000
Unlisted shares at cost	**1,040**	1,040

Amount due from/(to) a subsidiary is unsecured, interest-free and is 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$1	100%	Trading of medicines

18. INVENTORIES

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Raw materials	**175**	836
Work in progress	**960**	4,914
Finished goods	**859**	6,162
	1,994	11,912

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**819**	10,038	**819**	10,038
Less: allowance for doubtful debts	**(726)**	(6,084)	**(726)**	(6,084)
	93	3,954	**93**	3,954
Amount due from a subsidiary	**—**	—	**11**	—
Amount due from the immediate parent company (note 30)	**—**	2,000	**—**	2,000
Amount due from fellow subsidiaries (note 30)	**1,267**	2,277	**1,267**	2,277
Amount due form a related company (note 30)	**10**	10	**10**	10
Other receivables	**22**	400	**22**	400
Loans and receivables	**1,392**	8,641	**1,403**	8,641
Prepayments and deposits	**2,534**	2,339	**2,534**	2,339
	3,926	10,980	**3,937**	10,980

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

a) Ageing analysis

As ageing analysis of trade receivables net of allowance for doubtful debts of RMB726,000 (2007: RMB6,084,000), as of the balance sheet date is as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
Within 3 months	**85**	813
More than 3 months but less than 12 months	**8**	891
Over 12 months	**—**	2,250
	93	3,954

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)

b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(g)).

Movements in the allowance for doubtful debts

	The Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**6,084**	9,504
Impairment loss recognised (note i)	**249**	—
Recovery of doubtful debts (note ii)	**(1,780)**	(2,015)
Uncollectible amounts written off (note iii)	**(3,827)**	(1,405)
At 31 December	**726**	6,084

Note:

i) As at 31 December 2008, trade receivables of the Group amounting to RMB249,000 (2007: Nil) were individually determined to be impaired and full provision had been made. 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 an independent third party for the collection of certain long-outstanding trade receivables. The third party succeeded in recovering these long-outstanding debts for the Company.

iii) RMB3,827,000 (2007: RMB1,405,000) of the trade receivables previously considered as impaired and provided for was written off in 2008. The amount represented the long-outstanding trade receivables which were not collectible with the assistance of the independent third party as mentioned in note (ii).

iv) The Group does not hold any collateral over these balances.

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	
	2008	2007
	RMB'000	RMB'000
Neither past due nor impaired	**85**	813
3 to 6 months past due	**—**	883
Over 12 months past due	**—**	2,250
	85	3,946

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged deposits	**—**	418	**—**	418
Cash at bank and on hand	**3,773**	38,650	**3,696**	38,447
	3,773	39,068	**3,696**	38,865
Less: Pledged for issue of guarantee letters for construction-in-progress	**—**	(418)	**—**	(418)
Cash and cash equivalents in the consolidated balance sheet and the consolidated cashflow statement	**3,773**	38,650	**3,696**	38,447

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**1,356**	1,402	**1,356**	1,402
Other payables	**8,099**	11,994	**8,099**	11,960
Amount due to a subsidiary	**—**	—	**—**	292
Amount due to fellow subsidiaries (note 30)	**—**	158	**—**	158
Amount due to the immediate parent company (note 30)	**15,076**	—	**15,076**	—
Financial liabilities measured at amortised cost	**24,531**	13,554	**24,531**	13,812

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

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Within 3 months	**101**	311
4 to 6 months	**314**	341
7 to 12 months	**269**	292
Over 1 year	**672**	458
	1,356	1,402

22. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	The Group and the Company 2008 RMB'000	2007 RMB'000
Current portion of:				
Short-term bank loan – unsecured	6.39%	2008	**—**	30,000
Long-term bank loan – secured	7.83%	2014	**14,000**	7,000
			14,000	37,000
Non-current portion of:				
Long-term bank loan – secured	7.83%	2014	**106,000**	120,000
			120,000	157,000

At 31 December 2008, the interest-bearing bank borrowings were repayable as follows:

	The Group and the Company 2008 RMB'000	2007 RMB'000
Within 1 year or on demand	**14,000**	37,000
After 1 year but within 2 years	**20,000**	14,000
After 2 years but within 5 years	**76,000**	70,000
After 5 years	**10,000**	36,000
	106,000	120,000
	120,000	157,000

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

22. INTEREST-BEARING BANK BORROWINGS (continued)

The Group's bank loans of to RMB120,000,000 (2007: RMB157,000,000) utilized were secured by:

i) mortgages over the Group's interest in leasehold land held for own use under operating leases situated in PRC, which had an aggregate carrying value at the balance sheet date of approximately RMB8,434,000 (2007: approximately RMB8,615,000) (note 14);

ii) mortgages over the Group's buildings, equipment and construction-in-progress, which had an aggregate carrying value of approximately RMB184,492,000 (2007: approximately RMB177,148,000) at the balance sheet date (note 13);

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

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

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

In addition, the Company's controlling shareholder has given a corporate guarantee for the above bank loan. At the balance sheet date, the outstanding bank loan amounted to RMB120,000,000 (2007: RMB127,000,000) (note 30(b) (x)).

The Group's pledged assets including in (i) and (ii) were released on 24 February, 2009 and the Company entered into a guarantee agreement with the bank, details refer to note 34(c) respectively.

23. INCOME TAX IN THE BALANCE SHEET

a) Current taxation in the balance sheet represents:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Provision for the year		
– PRC Enterprise Income tax	**—**	—
Provisional tax payable		
– PRC Enterprise Income tax	**2,342**	2,342
	2,342	2,342

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 2007	225
Credited to profit or loss	225
At 31 December 2007 and 1 January 2008	450
Credited to profit or loss	276
At 31 December 2008	726

c) Deferred tax assets not recognised

At the balance sheet date, the Group has unused tax losses of RMB47,073,000 (2007: RMB31,232,000) available for offset against future profits that may be carried forward for five years for PRC Enterprise Income tax purposes. 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 are unsecured, bear interest at 5.00% and 7.47% per annum (2007: 5.00% per annum), of which RMB48,000,000 and RMB30,000,000 are repayable on 5 April 2009 and 26 March 2009 respectively. On 2 December 2008, the immediate parent company agreed to extend the repayment date of the entrusted loans by not less than one year or within 15 working days after the completion of the Group's fund raising (whichever is earlier), if any, to be done in the future.

The carrying amount of the Group's entrusted loans from the immediate parent company approximates 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)	Subsidy E RMB'000 (Note e)	Total RMB'000
Cost						
At 1 January 2007 and 2008	500	500	3,000	400	—	4,400
Additions	—	—	—	—	300	300
At 31 December 2008	500	500	3,000	400	300	4,700
Accumulated amortisation						
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
At 1 January 2008	150	—	576	233	—	959
Released to income statement for the year	50	—	298	—	—	348
At 31 December 2008	200	—	874	233	—	1,307
Net book value						
At 31 December 2008	300	500	2,126	167	300	3,393
At 31 December 2007	350	500	2,424	167	—	3,441

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 (2007: RMB50,000) had recognized as income on a systematic and rational basis over the useful life 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 its completion. Since the Company has not yet obtained the approval for the project, the subsidy was not recognised as income for 2008 and 2007.

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 approximately RMB298,000 (2007: RMB298,000) had recognized as income on a systematic and rational basis over the useful life 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. The subsidy was not recognized as income for 2008 and 2007.

e) In June 2008, a subsidy of RMB300,000 was granted by the Shenzhen Bureau of Science and Technology Branch for financing the research and development of inactivated split influence vaccine. The subsidy is not required to be repaid to the Shenzhen Bureau of Science and Technology Branch. Since the Company has not yet obtained the approval for the project, the subsidy was not recognized as income for 2008.

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

26. SHARE CAPITAL

	2008 Number of shares '000	2007 Number of shares '000	**2008 RMB'000**	2007 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
At 1 January and 31 December	**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 RMB'000	**Statutory reserve fund** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2007	41,923	3,330	(17,164)	28,089
Loss for the year	—	—	(20,720)	(20,720)
At 31 December 2007 and 1 January 2008	41,923	3,330	(37,884)	7,369
Loss for the year	—	—	(30,200)	(30,200)
At 31 December 2008	41,923	3,330	(68,084)	(22,831)

Under the laws and regulations of the PRC and the Company's articles of association, the Company has to provide for certain statutory funds, namely, the statutory reserve fund which is appropriated from net profit after tax but before dividend distribution.

27. RESERVES (continued)

c) Statutory reserve fund

The Company is required to allocate at least 10% of its net profit per its 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.

d) Distributability of reserves

At 31 December 2008, the Group had no distributable reserves, while its accumulated losses, calculated in accordance with the Company's Articles of Association and relevant rules regulations, amounted to RMB69,058,000.

e) 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, issue new shares as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

27. RESERVES (continued)

e) Capital management (continued)

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a gearing ratio within 30% to 70%. The gearing ratio at 31 December 2008 and 2007 was as follows:

	2008	2007
	RMB'000	RMB'000
Total borrowings		
Interest-bearing bank borrowings (note 22)	**120,000**	157,000
Entrusted loans from the immediate parent company (note 24)	**78,000**	48,000
	198,000	205,000
Less: Cash and cash equivalents (note 20)	**(3,773)**	(38,650)
Net debt	**194,227**	166,350
Total equity	**70,862**	101,457
Total capital	**265,089**	267,807
Gearing ratio	**73%**	62%

As at 31 December 2008, the gearing ratio of the Group was 73%, which was slightly higher than the range set by the Group. The Group is in the process of considering the possibility of issuing of new shares or redemption of existing debt. Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

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 borrowings, trade receivables 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 2008, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet 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 the 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 and entrusted loans from the immediate parent company as a significant source of liquid fund.

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

	2008							2007						
	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 undiscounted 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	9.79%-13.57%	14,000	34,384	102,574	10,979	161,937	120,000	6.39%	37,000	21,668	90,320	40,601	189,589	157,000
Entrusted loans from immediate parent company	5%-7.47%	–	82,641	–	–	82,641	78,000	5%	–	52,800	–	–	52,800	48,000
		14,000	117,025	102,574	10,979	244,578	198,000		37,000	74,468	90,320	40,601	242,389	205,000

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (continued)

c) Interest rate risk

The Group's exposure to market risk for changes in interest rates related primarily to the Group's interest bearing borrowings and entrusted loan from the immediate parent company which are at variable interest rate.

At 31 December 2008, it is estimated that a general increase/decrease of 1% basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB1,980,000 (2007: RMB1,750,000).

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 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 2007.

d) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group's transactional currency is Renminbi as substantially all the turnover is in Renminbi. The Group's transactional foreign exchange exposure was insignificant.

e) Fair values

The fair values of cash and cash equivalents, trade and 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 carrying amounts of interest-bearing bank borrowings and entrusted loans from the immediate parent company approximate to their fair values.

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 and the Company have the following material transactions with related parties.

a) During the year ended 31 December 2008, 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	2008 RMB'000	2007 RMB'000	Relationship
Shenzhen Neptunus Bio-engineering Co. Ltd. ("Neptunus Bio-engineering")	Entrusted loans from immediate parent company	(i)	**78,000**	48,000	Immediate parent company
	Accrued interest for the entrusted loan		**5,396**	—	
	Funds transfer to immediate parent company for arranging purchase of raw material		**—**	2,000	
	Funds transfer from immediate parent company for operation		**9,680**	—	
Shenzhen Neptunus Pharmaceutical Co Ltd. ("Neptunus Pharmaceutical")	Rental of factory premises	(ii) (iii)	**120**	120	Fellow subsidiary
	Reimbursement for the use of plant and machinery	(ii) (iv)	**778**	554	
	Reimbursement of direct labour costs	(ii) (v)	**312**	222	
	Reimbursement of water, electricity and fuel costs	(ii) (vi)	**422**	1,192	
	Management fees	(ii) (vii)	**10**	10	
	Property management fees	(ii) (viii)	**60**	60	
Shandong Neptunus Yinhe Pharmaceutical Co. Ltd. ("Shandong Neptunus")	Sales of influenza vaccine	(ii) (ix)	**850**	—	Fellow subsidiary
Shenzhen Neptunus Tongai Pharmaceutical Co. Ltd. ("Tongai Pharmaceutical")	Rental of office and factory premises	(ii) (xii)	**—**	—	Fellow subsidiary
Shenzhen Nepstar Pharmaceutical Co. Ltd. ("Nepstar Pharmaceutical")	Sale of interferon and interleukin	(ii) (ix)	**—**	—	Related company

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Notes:

i) In April 2007, the Group obtained a RMB39,000,000 interest-bearing entrusted loan from Neptunus Bio-engineering. The entrusted loan is unsecured, bears interest at 5% per annum and repayable on 5 April 2009.

On 13 December 2007, the Group obtained a RMB9,000,000 interest-bearing entrusted loan from Neptunus Bio-engineering. The entrusted loan is unsecured, bears interest at 5% per annum and repayable on 5 April 2009.

On 26 March 2008, the Group obtained a RMB30,000,000 interest-bearing entrusted loan from Neptunus Bio-engineering. The entrusted loan is unsecured, bears interest at 7.47% per annum and repayable on 26 March 2009.

On 2 December 2008, the immediate parent company agreed that the Group will extend the repayment date of the above three entrusted loans by not less than one year or within 15 working days after the completion of the Group's fund raising (whichever is earlier), if any, to be done in future.

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

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

iv) The reimbursement for 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 sales were conducted in the normal course of business on the same terms as those charged to and contracted with other third party customers.

x) During the year, Neptunus Bio-engineering provided a corporate guarantee to the extent of RMB120,000,000 for the bank loan granted to the Group (note 22).

xi) During the year, Neptunus Bio-engineering pledged its 639,000,000 domestic shares in the Company and Mr. Chai Xiang Dong, the management shareholder of the Company, pledged his 47,671,000 domestic shares in the Company to secure the Group's bank loan of RMB120,000,000 (2007: RMB127,000,000) (note 22).

xii) The rental of office and factory premises was charged at pre-agreed rates with reference to market prices. On 1 January 2008, Tongai Pharmaceutical leased office premises to the Company. The rental of approximately RMB268,000 attributable to 2008 was waived by Tongai Pharmaceutical pursuant to an agreement dated 13 February 2009. The rental of approximately RMB268,000 attributable to year 2007 was also waived by Tongai Pharmaceutically pursuant to an agreement dated 30 January 2008.

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

c) Financing arrangements

	Amounts owed to related parties		Related interest Expenses	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Entrusted loans from immediate parent company	**78,000**	48,000	**3,954**	1,442

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

On 2 December 2008, the immediate parent company of the Group agreed to provide the following facilities to the Group:

i) The immediate parent company agreed to provide a further entrusted loan of RMB60,000,000 to the Group (the "New Borrowings") to finance for the new project with GSK. The repayment term of the New Borrowings will be more than 1 year or within 15 working days after the completion of the Group's fund raising (whichever is earlier), if any, to be done in future.

ii) For the existing three entrusted loans (the "Entrusted Loans") with a total amount of RMB78,000,000 (2007: RMB48,000,000) provided by the immediate parent company during the year (note 30(b)(i)), the repayment date is extended to not less than one year or within 15 working days after the completion of the Group's fund raising (whichever is earlier), if any, to be done in future.

iii) In addition to (i) and (ii) above, the immediate parent company indicated its intention, to provide further stand-by facilities of RMB30,000,000 to the Group when required. The stand-by facilities will be given in the form of an entrusted loan. The repayment term of the entrusted loan will be more than 1 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Outstanding balance with the immediate parent company	**—**	2,000	**93,076**	48,000
Outstanding balances with fellow subsidiaries:				
Neptunus Pharmaceutical	**417**	2,277	**—**	—
Shandong Neptunus	**850**	—	**—**	158
Tongai Pharmaceutical	**—**	—	**—**	—
	1,267	2,277	**—**	158
Outstanding balances with a related company:				
Nepstar Pharmaceutical	**10**	10	**—**	—
	1,277	4,287	**93,076**	48,158

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

e) Key management personnel emoluments

Emoluments 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:

	2008	2007
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**1,933**	1,151
Retirement scheme contributions	**49**	14
	1,982	1,165

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

31. COMMITMENTS

a) Capital commitments outstanding at 31 December 2008 authorized and not provided for in the financial statements were as follows:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Property, plant and equipment		
Contracted for, but not provided for:		
Property, plant and equipment	**5,633**	7,708
Land lease payments, net of deposits *	**5,500**	5,500
Others	**160**	173
	11,293	13,381
Authorised, but not contracted for:		
Plant and equipment	**—**	1,530
	11,293	14,911
Intangible assets		
Contracted for, but not provided for:		
Technical know-how, net of deposits	**8,927**	8,927
	20,220	23,838

* The Company entered into a contract with Baoan Development Company, an independent third party 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 including water and electricity supply for a piece of land in Guangming Hi-Tech Industrial Park of Shenzhen have already acquired by the Company, in return for a 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 deposits and the Company is in the course of applying 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.

b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Within 1 year	**438**	563
After 1 year but within 5 years	**—**	—
	438	563

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

32. IMMEDIATE AND ULTIMATE CONTROLLING PARENT COMPANY

At 31 December 2008, the directors consider the immediate and ultimate controlling parent company of the Group to be Shenzhen Neptunus Bio-engineering Co., Ltd. and Shenzhen Neptunus Group Co., Ltd. respectively, which are incorporated in the PRC. Shenzhen Neptunus Bio-engineering Co., Ltd. produces accounts for public use.

33. 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 the level of revenue and the 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 trade receivables and other receivables, where applicable, at each balance sheet date. The estimates are based on the ageing of the trade receivables 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) Write-down of inventories

The Group determines the write-down for obsolescence of inventories. Those estimates are made with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, a write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realizable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in the estimation.

33. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

a) Key sources of estimation uncertainty (continued)

iv) Capitalised development expenditure

Expenditure incurred on projects to develop new products is capitalized 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.

v) 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(g). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations 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.

vi) 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.

33. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

i) Going concern

As mentioned in note 1(b) to the financial statements, the directors are satisfied that the Company will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. As the directors are confident that the Company will be able to continue in operational existence in the foreseeable future, the financial statements have been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustment would have to be made to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net liabilities of the Company.

34. SUBSEQUENT EVENTS

a) On 1 January 2008, Tongai Pharmaceutical leased an office premises to the Company. The rental of RMB267,984 attributable to the year 2008 was waived by Tongai Pharmaceutical pursuant to an agreement dated 13 February 2009.

b) On 20 November 2008, the Company and an independent third parties, GlaxoSmithKline Biologicals SA and GlaxoSmithKline Pte Limited (the "GSK Pte"), entered into a cooperation agreement (the "Cooperation Agreement") for the establishment of a joint venture company (the "JV Company") which will be engaged in the research, development and production of human influenza vaccines, rabies vaccines, and potentially other human vaccines and/or related products, and to sell, distribute and provide after-sale services to the products manufactured by the JV Company.

On 10 March 2009, an extraordinary general meeting was held by the Company. The shareholders of the Company passed the resolution approving and ratifying the execution of the Cooperation Agreement and the entering into of the joint venture contract with GSK Pte (the "JV Contract") for the formation of the JV Company which will initially be beneficially owned as to 60% by the Company and 40% by GSK Pte upon establishment. According to the JV Contract, the Company will contribute certain assets, including property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets to the JV Company (the "Contribution Assets") as capital contribution (the "Disposal").

The JV Company will be treated as a jointly controlled entity of the Company. The Company will apply proportionate consolidation method to recognise its interests in the assets, liabilities, income and expenses of the JV Company in the financial statements of the Company. As the expected maximum transfer price of the Contribution Assets of US$47 million (approximately RMB324 million) is equivalent to the aggregate of (i) the carrying amount of the Contribution Assets as at 31 December 2008 of approximately RMB270 million; and (ii) the expected further cost of approximately RMB54 million in relation to the Contribution Assets to be incurred by the Company, the Group expects that no gain will be realised on the Disposal.

34. SUBSEQUENT EVENTS (continued)

c) As at 31 December 2008, the Company's interest in leasehold land held for own use, building and plant and machinery were pledged to the China Development Bank (the "CDB") as security for the interest-bearing borrowings (note 22). On 24 February 2009, the Company, Neptunus Bio-engineering, Shenzhen Neptunus Group Company Limited (ultimate controlling parent company) (the "Neptunus Group") and Mr Chai Xiang Dong ("Mr Chai") entered into an amendment agreement with the CDB to amend certain provisions of the loan agreement (the "Amendment Agreement").

Pursuant to the Amendment Agreement, the CDB has released the pledge of the Group's buildings, equipments, construction-in-progress and interest in leasehold land held for own use to satisfy the relevant conditions precedent under the Cooperation Agreement.

Pursuant to the Amendment Agreement, Neptunus Group entered into a guarantee agreement in favour of the CDB on 24 February 2009 to guarantee the repayment of all sums owing by the Company under the loan agreement, and to ensure that the outstanding loan will be fully repaid in a punctual manner irrespective of whether or not the joint venture under the JV Contract is effected.

d) On 2 March 2009, the Company entered into a non-legally binding letter of intent with Neptunus Bio-engineering and Neptunus Pharmaceutical. The Company intends to acquire 80% equity interest of Fuzhou Neptunus Fuyao Pharmaceutical Company Limited (the "Neptunus Fuyao") from Neptunus Bio-engineering and Neptunus Pharmaceutical and sell the business and assets of the Company to Neptunus Pharmaceutical in relation to the production and sale of recombinant human interferon2b for injection and recombinant human interleukin-2 (125Ser) for injection to Neptunus Fuyao. Neptunus Fuyao is a subsidiary of Neptunus Bio-engineering and is incorporated in the PRC. The principal activities of Neptunus Fuyao comprise the production and sale of high-volume and low-volume injections, tablets, capsules, granules, powder, new comestibles and drinking products.

e) The GMP certificate for the Compnay's rhIL-2 (125Ser) for injection (one of the core products) expired on 23 December 2008. In order to continue the production of rhIL-2 (125Ser) for injection, the Company has to apply for a new GMP certificate for its production line in accordance with the 2008 GMP certification standards. To do so, the Company has to upgrade and reform its current production line. On the other hand, although the GMP certificate for the Company's rhIFNa2b for injection (the other core product) will only expire on 29 December 2010, the director takes the view that it is imperative for the Company to enhance the market competitiveness of the Company's rhIFNa2b for injection by either upgrading its current production lines or establishing new production lines so as to reduce the production costs and to comply with the 2008 GMP certification standards. The director esimates that the investment in upgrading or constructing new production lines for these two core products will be substantial and it will take at least one year before the Company can obtain in the new GMP certificates. Therefore, the Company ceased the operation of such business on 16 March 2009 with a view that the Company could better allocation of resources.

As a result of the cessation of the cytokines business, no further revenue will be generated from such business. After 16 March 2009, the Company does not engage in production of any drugs, and revenue from the R&D business is now the main source of revenue for the Company.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
TURNOVER	**16,310**	16,160	20,181	49,383	48,248
Cost of sales	**(7,477)**	(5,103)	(7,697)	(7,708)	(7,959)
Gross profit	**8,833**	11,057	12,484	41,675	40,289
Other revenue	**2,650**	3,347	1,606	702	2,240
Selling and distribution costs	**(3,242)**	(3,897)	(11,002)	(27,749)	(23,704)
Administrative expenses	**(13,047)**	(17,088)	(12,514)	(5,730)	(3,178)
Other operating expenses	**(20,234)**	(12,270)	(13,494)	(6,788)	(4,338)
(Loss)/profit from operations	**(25,040)**	(18,851)	(22,920)	2,110	11,309
Finance costs	**(5,831)**	(2,541)	(3,018)	(1,168)	(1,088)
(LOSS)/PROFIT BEFORE TAXATION	**(30,871)**	(21,392)	(25,938)	942	10,221
Income Tax	**276**	225	(29)	(1,102)	(1,643)
(LOSS)/PROFIT FOR THE YEAR AND ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	**(30,595)**	(21,167)	(25,967)	(160)	8,578
ASSETS AND LIABILITIES					
TOTAL ASSETS	**299,128**	325,794	277,354	228,530	114,403
TOTAL LIABILITIES	**(228,266)**	(224,337)	(154,730)	(79,939)	(31,242)
	70,862	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 revenue, 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 PROPERIES

PROPERTIES IN PRC

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