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)

2009 Interim Report

Stock Code: 8329

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE"):

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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 full 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.

INTERIM RESULTS (UNAUDITED)

The Board of Directors (the "Board") of the Company is pleased to present the unaudited consolidated results of the Company and its subsidiary (the "Group") for the six months ended 30 June 2009 (the "Relevant Period"), together with the unaudited comparative figures for the corresponding period of 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2009

		For the three months ended 30 June		For the six months ended 30 June	
		2009	2008	**2009**	2008
		(Unaudited)		**(Unaudited)**	
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
TURNOVER	5	**38**	4,010	**2,805**	7,629
Cost of sales		**(108)**	(2,646)	**(1,803)**	(3,961)
Gross (loss)/profit		**(70)**	1,364	**1,002**	3,668
Other income	5	**188**	127	**317**	1,771
Selling and distribution costs		**(401)**	(672)	**(1,458)**	(1,810)
Administrative expenses		**(4,214)**	(1,569)	**(6,705)**	(3,932)
Other operating expenses		**(1,552)**	(1,495)	**(1,768)**	(2,684)
LOSS FROM OPERATIONS		**(6,049)**	(2,245)	**(8,612)**	(2,987)
Finance costs	7	**(3,781)**	(911)	**(6,307)**	(1,667)
LOSS BEFORE TAXATION	6	**(9,830)**	(3,156)	**(14,919)**	(4,654)
Income tax	8	**—**	—	**—**	—
LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**(9,830)**	(3,156)	**(14,919)**	(4,654)
LOSS PER SHARE					
Basic	10	**RMB(1.04) cents**	RMB(0.33) cents	**RMB(1.58) cents**	RMB(0.49) cents
Diluted	10	**RMB(1.04) cents**	RMB(0.33) cents	**RMB(1.58) cents**	RMB(0.49) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 30 June 2009

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	(Unaudited)		**(Unaudited)**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**(9,830)**	(3,156)	**(14,919)**	(4,654)
Other comprehensive income/(loss)	**—**	—	**—**	—
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**(9,830)**	(3,156)	**(14,919)**	(4,654)

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2009

	Note	**As at 30 June 2009 (Unaudited) RMB'000**	As at 31 December 2008 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**266,057**	256,978
Interest in leasehold land held for own use under operating lease		**29,583**	8,434
Intangible assets		**22,781**	23,297
Deferred tax assets		**726**	726
		319,147	289,435
CURRENT ASSETS			
Inventories		**330**	1,994
Trade and other receivables	12	**2,939**	3,926
Cash and cash equivalents		**2,142**	3,773
		5,411	9,693
CURRENT LIABILITIES			
Trade and other payables	13	**42,030**	24,531
Interest-bearing bank borrowings	14	**47,000**	14,000
Tax payable		**2,342**	2,342
		(91,372)	(40,873)
NET CURRENT LIABILITIES		**(85,961)**	(31,180)
TOTAL ASSETS LESS CURRENT LIABILITIES		**233,186**	258,255
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	**96,000**	106,000
Entrusted loans from immediate parent company		**78,000**	78,000
Deferred revenue		**3,243**	3,393
		(177,243)	(187,393)
NET ASSETS		**55,943**	70,862
CAPITAL AND RESERVES			
Share capital		**94,667**	94,667
Reserves		**(38,724)**	(23,805)
TOTAL EQUITY		**55,943**	70,862

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2009

	Share capital RMB'000	Share premium account RMB'000	Statutory reserve fund RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	94,667	41,923	3,330	(69,058)	70,862
Loss for the period	—	—	—	(14,919)	(14,919)
Total comprehensive loss for the period	—	—	—	(14,919)	(14,919)
At 30 June 2009	**94,667**	**41,923**	**3,330**	**(83,977)**	**55,943**
At 1 January 2008	94,667	41,923	3,330	(38,463)	101,457
Loss for the period	—	—	—	(4,654)	(4,654)
Total comprehensive loss for the period	—	—	—	(4,654)	(4,654)
At 30 June 2008	94,667	41,923	3,330	(43,117)	96,803

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES	**14,608**	2,928
CASH FLOWS FROM INVESTING ACTIVITIES	**(32,932)**	(22,940)
CASH FLOWS FROM FINANCING ACTIVITIES	**16,693**	(3,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,631)**	(23,012)
Cash and cash equivalents at the beginning of period	**3,773**	38,650
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,142**	15,638
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**2,142**	15,638

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Corporate information

The Company is a joint stock limited company registered in the People's Republic of China (the "PRC"). The registered office of the Company is located at 1st Floor, Block 1, Research Building, Neptunus Technical Center, Langshan 2nd R.N., Nanshan District, Shenzhen, Guangdong Province, the PRC.

2. Basis of presentation and accounting policies

The condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with the applicable disclosure provision of the GEM Listing Rules on the Stock Exchange, including compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of the condensed consolidated financial statements is in conformity with HKAS 34 requiring management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The preparation of the condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2008, except for the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") as disclosed in note 3 below. The condensed consolidated financial statements do not include all the information and disclosures required for an annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2008.

The financial statements are denominated in Renminbi ("RMB"), and based on historical cost method. Unless otherwise specifically stated, all amounts are presented in RMB'000. This condensed consolidated interim financial information was approved for issue on 6 August 2009.

This condensed consolidated interim financial information has not been audited.

3. Impact of new and amended HKFRSs and HKASs

The Group has adopted, for the first time, the following new HKFRSs and HKASs which are effective for the Group's financial year beginning on 1 January 2009.

HKFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009)

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related product and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 4). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

HKAS 1 (revised 2007) *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009)

HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.

The adoption of the following new and revised standards, amendments and interpretations did not have any significant impact on the accounting policies, financial position or performance of the Group.

HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HK (IFRIC) - Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK (IFRIC) - Int 13	Customer Loyalty Programmes
HK (IFRIC) - Int 15	Accounting for Agreements for the Construction of Real Estate
HK (IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 3 (Revised)	Business Combination[1]
HK (IFRIC) - Int 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC) - Int 18	Transfers of Assets from Customers[2]

1 Effective for annual periods beginning on or after 1 July 2009

2 Effective for transfers on or after 1 July 2009

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

4. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. On first-time adoption of HKFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) manufacturing and selling medicine products

(ii) providing research and development ("R&D") service of modern biological technology

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Manufacturing and selling medicine products						R&D service			
	PRC		Others		Sub-total				Total	
For the six months ended	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	2,303	5,891	–	1,738	2,303	7,629	502	–	2,805	7,629
Inter-segment revenue	–	–	–	–	–	–	–	–	–	–
Reportable segment revenue	2,303	5,891	–	1,738	2,303	7,629	502	–	2,805	7,629
Reportable segment (loss)/profit (adjusted EBITDA)	(5,781)	413	–	(392)	(5,781)	21	83	–	(5,698)	21
Impairment of trade receivable	–	184	–	–	–	184	–	–	–	184
Reportable segment assets	322,260	298,326	75	76	322,335	298,402	1,497	–	323,832	298,402
Additions to non-current segment assets during the period	11,051	22,572	–	–	11,051	22,572	–	–	11,051	22,572
Reportable segment liabilities	266,273	225,924	–	–	266,273	225,924	–	–	266,273	225,924

(b) Reconciliations of reportable segment profit or loss, assets and liabilities

	Six months ended 30 June	
	2009	2008
Profit or loss	**RMB'000**	RMB'000
Reportable segment (loss)/profit derived from group's external customers	**(5,698)**	21
Depreciation and amortisation	**(2,914)**	(3,008)
Finance costs	**(6,307)**	(1,667)
Consolidated loss before taxation	**(14,919)**	(4,654)

	At 30 June	At 31 December
	2009	2008
Assets	**RMB'000**	RMB'000
Reportable segment assets	**323,832**	298,402
Deferred tax assets	**726**	726
Consolidated total assets	**324,558**	299,128

	At 30 June	At 31 December
	2009	2008
Liabilities	**RMB'000**	RMB'000
Reportable segment liabilities	**266,273**	225,924
Current tax liabilities	**2,342**	2,342
Consolidated total liabilities	**268,615**	228,266

5. Turnover and other income

The Group's turnover represents the net invoiced value of the goods sold net of value-added tax ("VAT") after allowances for returns and trade discounts. An analysis of turnover and other income is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	(Unaudited)		**(Unaudited)**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
Turnover				
Sale of medicines	**38**	4,010	**2,303**	7,629
R&D service income	**—**	—	**502**	—
	38	4010	**2805**	7629
Other income				
Interest income on bank deposits	**3**	43	**6**	115
Government subsidy	**76**	80	**181**	155
Recovery of doubtful debts	**108**	—	**108**	1,494
Others	**1**	4	**22**	7
	188	127	**317**	1,771

6. Loss before taxation

Loss of the Company before taxation is arrived at after charging or (crediting):

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	(Unaudited)		**(Unaudited)**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
(a) Staff costs				
Salaries, wages and other benefits (including directors' emoluments)	**1,551**	1,640	**3,078**	4,251
Pension scheme contributions	**54**	81	**113**	245
(b) Other Items				
Cost of sales	**108**	2,646	**1,803**	3,961
Amortisation of interest in leasehold land held for own use	**83**	45	**128**	90
Depreciation	**610**	1,201	**1,806**	1,573
Amortisation of intangible assets*	**644**	1,137	**980**	1,345
R&D costs*	**847**	582	**847**	966
Auditors' remuneration	**178**	—	**178**	224
Impairment of trade receivable*	**—**	184	**—**	184
Loss on disposal of properties, plant and equipment	**—**	53	**9**	53

* These amounts have been included in "Other operating expenses" on the face of the unaudited condensed consolidated income statement.

7. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	(Unaudited)		**(Unaudited)**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest on bank advances wholly repayable within five years	**3,781**	3,517	**6,307**	6,868
Less: Interest capitalised as cost of construction in progress	**—**	(2,606)	**—**	(5,201)
	3,781	911	**6,307**	1,667

8. Income tax

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

The PRC enterprise income tax (the "EIT") for the Relevant Period is 25%. The EIT has not been provided for as the Group has incurred loss for the Relevant Period.

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 Regulation of the New Law. The New Law and Implementation Regulation has changed tax rates 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.

9. Dividends

The Board does not recommend the payment of any dividend for the Relevant Period (2008: Nil).

10. Loss per share

For the three-month and six-month periods ended 30 June 2009, the calculation of basic loss per share was based on the loss attributable to equity shareholders of approximately RMB9,830,000 and RMB14,919,000 respectively (three-month and six-month periods ended 30 June 2008: loss of RMB3,156,000 and loss of RMB4,654,000 respectively) and 946,670,000 ordinary shares in issue for the three-month and six-month periods ended 30 June 2009 (2008: 946,670,000 ordinary shares).

Diluted earnings per share for the three-month and six-month periods ended 30 June 2009 and 2008 equals to basic loss per share because there were no potential dilutive ordinary shares outstanding during these periods.

11. Property, plant and equipment

During the Relevant Period, property, plant and equipment purchased by the Company were approximately RMB11,051,000 (2008: RMB22,572,000).

12. Trade and other receivables

Included in trade and other receivables are trade receivables, the aging analysis of which, based on the invoice date, is as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
With 3 months	**—**	85
More than 3 months but less than 12 months	**—**	16
Over 12 months	**408**	718
	408	819
Less allowance for doubtful debts	**(408)**	(726)
Trade receivable, net	**—**	93
Prepayment and deposits	**1,136**	2,534
Amount due from a related company	**10**	10
Amount due from fellow subsidiaries	**1,704**	1,267
Other receivables	**89**	22
	2,939	3,926

13. Trade and other payables

Included in trade and other payables are trade payables, the aging analysis of which, based on the invoice date, is as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within 3 months	**136**	101
4 to 6 months	**9**	314
7 to 12 months	**160**	269
Over 1 year	**533**	672
Trade payable	**838**	1,356
Amount due to the immediate parent company	**35,240**	15,076
Other payable	**5,952**	8,099
	42,030	24,531

14. Interest-bearing bank borrowings

	Effective interest rate (%)	Maturity	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Current portion of:				
Short term bank loan – unsecured	**5.31**	**2009**	**30,000**	—
Long term bank loan – secured	**5.94**	**2014**	**17,000**	14,000
			47,000	14,000
Non-current portion of:				
Long term bank loan – secured	**5.94**	**2014**	**96,000**	106,000
			143,000	120,000
Interest-bearing bank borrowings repayable:				
Within one year or on demand			**47,000**	14,000
After 1 year but within 2 years			**22,000**	20,000
After 2 years but within 5 years			**74,000**	76,000
After five years			**—**	10,000
			143,000	120,000

Notes:

(a) Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering"), the Company's immediate parent company, and its controlling shareholder Shenzhen Neptunus Group Company Limited ("Neptunus Group") has put up a corporate guarantee for a loan granted by China Development Bank ("CDB") to the Company. At the balance sheet date, the Group's outstanding loan due to CDB amounted to RMB113,000,000 (2008: RMB120,000,000) (note 16(c)).

(b) The Group's banking facility amounting to RMB113,000,000 was secured by:

(i) Funds raised from placing to be conducted by the Company in the future;

(ii) The shareholder's income to be received from Shenzhen GSK-Neptunus Biologicals Co.,Ltd. ("GSK-Neptunus") by the Company and the consideration to be received from the transferee for the transfer of the equity interest held by the Company in GSK-Neptunus;

(iii) the pledge of 639,000,000 domestic shares in the Company held by Neptunus Bio-engineering (note 16(d));

(iv) the pledge of 47,671,000 domestic shares in the Company held by Mr. Chai Xiang Dong, the Company's management shareholder (note 16(d)); and

(c) Neptunus Bio-enginerring, the immediate parent company of the Company, and its subsidiary Shenzhen Neptunus Pharmaceutical Company Limited ("Neptunus Pharmaceutical") provided a corporate guarantee for the bank loan granted to the Company by Longgang sub-branch of Shenzhen Development Bank Co., Ltd. ("SDB"). At the balance sheet date, the Group's outstanding loan due to SDB amounted RMB30,000,000. The Company has not pledged any assets of the Company to Neptunus Bio-engineering or Neptunus Pharmaceutical for such financial assistance (note 16(e)).

15. Commitments

(a) Capital commitments not realised and not provided for in the financial statements at 30 June 2009 were as follows:

	The Group and the Company	
	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Properties, plant and equipment		
Contracted for, but not provided for:		
Properties, plant and equipment	**5,265**	5,633
Land lease payments, net of deposits*	**5,500**	5,500
Others	**160**	160
	10,925	11,293
Intangible assets		
Contracted for, but not provided for:		
Technical know-how, net of deposits	**8,927**	8,927
	19,852	20,220

* 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 the Company with the basic facilities including water and electricity supply for a piece of land in Guangming Hi-Tech Industrial Park of Shenzhen 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 deposit 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 30 June 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within 1 year	**266**	438
After 1 year but within 5 years	**—**	—
	266	438

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

16. Material related party transactions

The Group had the following material transactions with its related parties during the Relevant Period:

			For the six months ended 30 June	
			2009	2008
			(Unaudited)	
Name of related parties	**Nature of transactions**	*Note*	**RMB'000**	RMB'000
Neptunus Pharmaceutical	Rental of factory premises	(i)	**60**	60
	Reimbursement for the use of plant and machinery	(ii)	**2**	50
	Reimbursement of direct labour costs	(iii)	**2**	69
	Reimbursement of water, electricity and fuel costs	(iv)	**—**	251
	Management fees	(v)	**—**	5
	Property management fees	(vi)	**1**	27
	R&D service income	(vii)	**502**	—
Shenzhen Neptunus Tongai Pharmaceutical Company Limited	Rental of office and factory premises	(viii)	**134**	134
Neptunus Bio-engineering	Entrusted loans from immediate parent company	(ix)	**78,000**	78,000
	Accrued interest for entrusted loans	(ix)	**2,689**	1,557
	Funds transfer to the immediate parent company	(ix)	**17,475**	—
Shandong Neptunus Yinhe Pharmaceutical Company Limited ("Shandong Neptunus")	Sale of influenza vaccine	(b)	**—**	850

Notes:

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

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

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

   iii) 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.

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

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

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

   vii) Service fees was charged with reference to the domestic R & D services in the same type, which amounting to 120% of the total expenditure (including but not limited to depreciation on fixed assets, staff, consumable material, energy consumption, normal expense for administrative review and audit) for providing the R & D services.

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

   ix) On 6 April 2007, the Company entered into an entrusted loan contract for an amount of RMB39,000,000 with China Construction Bank and Neptunus Bio-engineering for a term of two years. This shareholder's entrusted loan is repayable on 5 April 2009. However, Neptunus Bio-engineering had undertaken that the repayment date of this entrusted loan would 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 has not provided any pledge or guarantee in respect of the above shareholder's entrusted loan. On 13 December 2007, the Company entered into an entrusted loan contract for an amount of RMB9,000,000 with China Construction Bank and Neptunus Bio-engineering. This shareholder's entrusted loan 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 has not provided any pledge or guarantee in respect of the above shareholder's entrusted loan. The Company also obtained another 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 the 15th 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 such 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). The Company has not provided any pledge or guarantee in respect of the above shareholder's entrusted loan.

   The total outstanding entrusted loans from the immediate parent company as at 30 June 2009 and 31 December 2008 were RMB78,000,000 and RMB78,000,000 respectively.

b) During the Relevant Period, the Group sold influenza vaccine to these related parties. The sale was conducted in the normal course of business and on the same terms as those contracted with other third party customers.

c) During the Relevant Period, Neptunus Bio-engineering provided a corporate guarantee to the extent of RMB113,000,000 (2008: RMB120,000,000) for the banking facility granted to the Group. (note 14).

d) During the Relevant Period, Neptunus Bio-engineering pledged its 639,000,000 domestic shares in the Company and Mr. Chai Xiang Dong, the Director and shareholder of the Company, pledged his 47,671,000 domestic shares in the Company to secure the Group's bank loans amounting to RMB113,000,000 (2008: RMB120,000,000) (note 14).

e) During the Relevant Period, Neptunus Bio-engineering and Neptunus Pharmaceutical pledged their self-owned properties to secure the maximum credit facilities and the SDB loans for the Group's loans of RMB30,000,000 (2008: Nil) granted by SDB (Note 14).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Relevant Period, the Group was principally engaged in the R&D of modern biological technology (the "R&D Business") and sales of cytokine therapeutic drugs (the "Cytokines Business"), including recombinant human interferon α2b for injection and recombinant human interleukin-2 for injection (125Ser) (the "Cytokines Products") in the PRC. During the Relevant Period, the Group has suspended the production and sales of subunit influenza vaccine and the Cytokines Products. During the Relevant Period, the Group was also engaged in the development of the R&D Business and strived to establish joint venture company with GlaxoSmithKline Pte Ltd. ("GSK Pte") in order to introduce advanced international production and quality management system and product quality standards for influenza vaccines to further develop its influenza vaccines business.

Influenza Vaccine Business

The influenza vaccines business is a key business to be developed by the Group. On 20 November 2008, the Company entered into the Cooperation Agreement (the "Cooperation Agreement") for the establishment of the JV Company ("JV Company ") with GlaxoSmithKline Biologrical SA and GlaxoSmithKline Pte Ltd. (together "GSK"). Pursuant to the Cooperation Agreement, the Company has signed the JV contract with GSK Pte on 9 June 2009 and the parties intend to establish the JV Company in 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 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 (i) US$45,530,000 (approximately HK$352,860,000, shall be contributed by the Company by injecting 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) to the JV Company; (ii) US$1,470,000 (approximately HK$11,390,000) shall be contributed by the Company in cash and the Company will hold 60% of the equity interest in the JV Company; (iii) US$3,690,000 (approximately HK$28,600,000) shall be contributed by GSK Pte by injecting machines, equipment etc. to the JV Company; and (iv) US$27,640,000 (approximately HK$214,210,000 shall be contributed by GSK Pte in cash and GSK Pte will hold 40% of the equity interest in the JV Company. 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.

During the Relevant Period, the Company has started to improve the existing plant with a production capacity of one million doses of influenza vaccines to prepare for the R&D services to be provided to the JV Company by the Company in the future.

Acquisition of Fuzhou Neptunus Fuyao Pharmaceutical Company Limited ("Neptunus Fuyao")

On 2 March 2009, the Company entered into a non-legally binding Letter of Intent ("Letter of Intent") with Neptunus Bioengineering 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 the relevant assets owned by the Company. The Letter of Intent has no legal binding effect on the parties. The Company, Neptunus Bio-engineering and Neptunus Pharmaceutical are now finalising the terms of the equity transfer agreement in respect of the sale and purchase of the equity interests in Neptunus Fuyao.

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 R&D services to Neptunus Bioengineering and its subsidiaries. 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 RMB502,000 for the Company during the Relevant Period.

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. The Company intends to enter into (i) a service agreement for the provision of services in the R&D of cytokines therapeutic drugs for a term of not less than five years to Neptunus Pharmaceutical in August or September 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 August or September 2009. These two agreements will be on normal commercial terms to be determined on an arm's length basis.

During the Relevant Period, the Company actively negotiated with international renowned R&D institutions for cooperation arrangement on the research of variation of influenza viruses and the strain used in production of influenza vaccines.

PROSPECTS

The Company and GSK Pte has executed JV contract in respect of 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 also 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.

If the Company is able to sign the above R&D service agreements with the JV Company and Neptunus Pharmaceutical, the Board estimates that these agreements will generate revenue for the Company of approximately RMB4,550,000 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

The Group's turnover for the Relevant Period was approximately RMB2,805,000, representing an decrease of 63.23% from that of RMB7,629,000 in the corresponding period last year. Turnover for the Relevant Period was mainly derived from sales income of medicine products and revenue of R&D Business. Sales income and revenue of R&D Business accounted for 82.1% and 17.9% of the total revenue respectively. Reasons for the decline in turnover during the Relevant Period that are the Company has suspended the sales of subunit influenza vaccine and the Cytokines Products, and the upgrading works for office, laboratory and production workshop for R&D services are still in progress.

The Group's gross profit and gross profit margin for the Relevant Period were approximately RMB1,002,000 and 35.72% respectively, decreasing by RMB2,666,000 and decreasing by 12.36% respectively compared with that of the corresponding period last year. The decrease in total gross profit was due to the suspension of the production and sales of related medicine products by the Company during the Relevant Period.

The Group's selling and distribution costs for the Relevant Period amounted to approximately RMB1,458,000, decreasing by approximately RMB352,000 compared with that of the corresponding period last year, representing a decrease of approximately 19.45%.

The Group's administrative expenses for the Relevant Period amounted to approximately RMB6,705,000, increasing significantly by approximately RMB2,773,000 from approximately RMB3,932,000 in the corresponding period last year, representing a increase of approximately 70.52%. The increase of administrative expenses during the Relevant Period was because of two reasons: (i) the Company has suspended the production of subunit influenza vaccine and the Cytokines Products, and relevant depreciation on production equipment, staff costs etc. were transferred to "administrative expenses"; and (ii) legal fees, audit expenses and entertainment expenses incurred by the Company in relation to the joint ventures, acquisitions and other businesses increased significantly.

The Group's other operating expenses for the Relevant Period amounted to approximately RMB1,768,000, decreasing by approximately RMB916,000 compared with that of the corresponding period last year, representing a decrease of approximately 34.13%, mainly because the Group donated a batch of drugs with a worth of approximately RMB 702,000 during the corresponding period last year and there was no such expenditure in the Relevant Period

Finance costs of the Group for the Relevant Period amounted to approximately RMB 6,307,000, representing a significant increase of approximately RMB 4,640,000 as compared with approximately RMB1,667,000 for the corresponding period last year. The increase was mainly attributable to the fact that the Group's production plant in Baoan district of Shenzhen obtained a Real Estate Title Certificate in September 2008, so that the related asset became fixed asset, and hence the corresponding loan interest received during the Relevant Period was fully recorded as financial costs.

The Group's loss before tax for the Relevant Period increased from approximately RMB4,654,000 in the corresponding period last year to approximately RMB14,919,000. The increase in loss was mainly due to the decrease in turnover and the significantly increase in administrative expenses and finance costs by the Group.

As such, loss attributable to the shareholders of the Company amounted to approximately RMB14,919,000 for the Relevant Period, compared with RMB4,654,000 for the corresponding period last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group normally funds its operations and investment activities from its internal financial resources and bank loans. The Group's transactions are mainly denominated in RMB, and the needs for liquidity and financing are regularly reviewed.

Borrowings and banking facilities

As of 30 June 2009, the Group had total bank financing liabilities of RMB143,000,000, of which RMB113,000,000 were long-term bank borrowings and RMB30,000,000 were short-term bank borrowings. Entrusted loans from the Company's controlling shareholders were RMB78,000,000.

On 23 May 2006, the Company entered into a long-term loan agreement (the "CDB Loan Agreement") with 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 influenza vaccine (the "Loan Project"). Pursuant to the CDB Loan Agreement, CDB requires the Company, Neptunus Bio-engineering, the Company's controlling shareholder, and Mr. Chai Xiang Dong, the management shareholder of the Company, to provide guarantee and securities (including without limitation to the pledge of the domestic shares of the Company currently held by them to CDB) to secure the CDB Loan. The Company would apply the revenue from the Loan Project to repay the CDB Loan by installments. During the Relevant Period, the Company has repaid principal of RMB 7,000,000 and interest of RMB 3,493,710 to CDB in accordance with to the terms of the CDB Loan Agreement.

Shareholder's entrusted loans

Shareholder's entrusted loans obtained by the Company from Neptunus Bio-engineering as at 30 June 2009 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; 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 would 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 the 15th 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 such 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 2 December 2008, Neptunus Bio-engineering undertook to the Company that it would provide the Company with new entrusted loans amounted to RMB60,000,000 to support the cooperation between the Company and GSK. The length of maturity of these entrusted loans would be one year at least or no earlier than the date of the 15th working day after completion of the issue of new H shares by the Company (whichever is earlier).

On 2 December 2008, Neptunus Bio-engineering also undertook to the Company that, if during 2009 the Company had no sufficient working capital to satisfy its current needs, Neptunus Bioengineering would provide suitable financial assistance of up to RMB 30,000,000 to satisfy the Company's continued operation capabilities during 2009. During the Relevant Period, Neptunus Bioengineering provided non-interest-bearing financial assistance to the Company in a total amount of approximately RMB17,475,000.

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, the management shareholder of the Company, entered into an Agreement on Pledge of Shares with CDB pursuant to which Mr. Chai Xiang Dong pledged 47,671,000 domestic shares 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 FOR 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 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) 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 30 June 2009, the gearing ratio of the Group was approximately 79.6% (end of 2008: 73%) and was calculated by a division of the Group's total borrowings by total capital. Net debt is equivalent to total borrowings (the aggregate of interest-bearing bank borrowings and shareholder entrusted bank loans) less cash and cash equivalents, total capital is equivalent to the aggregate of net debt and total equity interest.

Net current assets

As at 30 June 2009, the Group had net current liabilities of approximately RMB85,961,000. Current assets comprised cash and cash equivalents of approximately RMB2,142,000, amounts due from a related company and fellow subsidiaries of approximately RMB1,714,000, inventories of approximately RMB330,000 and, prepayments, deposits and other receivables of approximately RMB1,225,000. Current liabilities comprised trade payables of approximately RMB838,000, short-term borrowings of approximately RMB47,000,000, amounts due to immediate parent company of RMB35,240,000, tax payable of approximately RMB2,342,000 and other payables of approximately RMB5,952,000. Compared with 31 December 2008's net current liabilities position of approximately RMB31,180,000, it was mainly due to the facts that during the Relevant Period, the Company (i) repaid a total of approximately RMB10,494,000 of principal and interests of CDB loan; (ii) paid a total of approximately RMB 21,277,000 of land premium and related tax; (iii) acquired a total of approximately RMB11,051,000 of properties, equipment etc.; and (iv) paid administrative expenses etc.

Foreign Currency Risk

The Group's transactions are mainly denominated in RMB, and the needs for liquidity and financing are regularly reviewed. During the Relevant Period, all of the Group's operating revenue was denominated in RMB. The Group's major costs and capital expenditure were also denominated in RMB. The Directors believe that although the exchange rate between US dollars and RMB was subject to certain fluctuations during the year, the foreign currency risk facing the Group is not much. Therefore, the Group has not adopted any financial instrument for hedging purposes.

Contingent Liability

As at 30 June 2009, the Group had no significant contingent liability.

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

As at 30 June 2009, the interests and short positions 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 requires, 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" by directors as referred to in Rule 5.46 of the GEM Listing Rules to be notified of the Company and the Stock Exchange were as follows:

Long positions in shares of the Company:

Director/supervisor	**Capacity**	**Type of Interests**	**Number of domestic shares held**	**Approximate percentage of the domestic shares**	**Approximate percentage of the Company's equity interest**
Chai Xiang Dong (Note 1)	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Yu Jun (Note 2)	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

1 Executive Director and general manager of the Company

2 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 held in associated corporation	Approximate percentage of shares held
Zhang Si Min *(Note (a))*	Beneficial owner	Personal	Neptunus Bio-engineering	360,693	0.055%
Zhang Si Min *(Note (b))*	Beneficial owner	Personal	Ankeen Enterprises Limited ("Ankeen Enterprises ")	15	15%
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 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 30 June 2009.

(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 issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 32.535% of the 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. Neptunus Group was in turn beneficially interested in approximately 67.5% of the issued share capital of the Company as at 30 June 2009.

(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 30 June 2009.

Save as disclosed above, as at 30 June 2009, none of the Directors, supervisors or chief executives of the Company nor their respective associates held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the "required standard of dealings" by directors as referred to in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME, CONVERTIBLE SECURITIES AND WARRANTS

Up to 30 June 2009, the Company and its subsidiary 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 Relevant Period, 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 subsidiary or associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND ASSOCIATED SHARES

So far as the Directors and supervisors of the Company are aware, as at 30 June 2009, the interests and/or short positions held by shareholders (not being a Director, a supervisor or a chief executive of the Company) in shares or underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO were as follows:

Long positions in shares of the Company:

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

Notes:

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

(b) Ankeen Enterprises was deemed to be interested in the 639,000,000 domestic shares of the Company held by Neptunus Bio-engineering as Ankeen Enterprises was beneficially interested in approximately 41.9% of the issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 32.535% of the issued share capital of Neptunus Bio-engineering and Neptunus Bio-engineering and its directors were accustomed to act in accordance with the directions of Neptunus Group.

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

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

Save as disclosed above, the Directors and supervisors of the Company are not aware of any other persons (except the Directors, supervisors or chief executives of the Company) who held any interests or short positions in the shares or underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO as at 30 June 2009.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

The Company and its subsidiary did not purchase, sell or redeem any of the Company's listed securities during the Relevant Period. The Company and its subsidiaries also did not redeem, purchase or cancel any of their redeemable securities.

COMPETING INTERESTS

On 21 August 2005, Neptunus Bio-engineering, the controlling shareholder of the Company, entered into an agreement with the Company, in relation to non-competition undertakings and priority investment rights (the "Non-Competition Undertakings"), pursuant to which Neptunus Bio-engineering had undertaken to the Company and its associates that, inter alia, as long as the securities of the Company are listed on GEM:

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

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

Pursuant to the Non-Competition Undertakings, during the term of such Undertakings, when Neptunus Bio-engineering or its associates enter into any negotiations, within or outside the PRC, in relation to any new investment project which may compete with the existing and future business of the Company, the Company shall have a preferential right of investment in such investment projects.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the Relevant Period, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the "required standard of dealings" as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, the Directors confirmed that no transaction in the securities of the Company has been conducted during the Relevant Period, and the Company is not aware of any violation by the Directors on the standard of dealings and the standard of transactions as required under the code of conduct.

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 21 August 2005. The primary duties of the Audit Committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports, and to provide suggestions and opinions thereon to the Board. In addition, the Audit Committee members will also meet with the management to review the accounting principles and practices adopted by the Company and to discuss matters relating to the auditing, internal control system and financial reporting process of the Company. The Audit Committee comprises one non-executive Director, namely Ms. Yu Lin and two independent non-executive Directors, namely Mr. Yick Wing Fat, Simon and Mr. Poon Ka Yeung. Mr. Yick Wing Fat, Simon is the chairman of the Audit Committee.

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

As the Directors are aware, during the Relevant Period, the Company has complied with the requirements under the "Code on Corporate Governance Practice" set out in Appendix 15 and under "Corporate Governance Report" set out in Appendix 16 to the GEM Listing Rules. The Board will continue to enhance the standard of corporate governance of the Company to ensure that the Company will operate its business in an honourable and responsible manner.

On behalf of the Board
Shenzhen Neptunus Interlong Bio-technique Company Limited
Zhang Si Min
Chairman

Shenzhen, the PRC, 6 August 2009

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