深圳市海王英特龍生物技術股份有限公司

SHENZHEN NEPTUNUS INTERLONG BIO-TECHNIQUE COMPANY LIMITED*

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

Stock Code: 8329

ANNUAL REPORT 2009

* For identification purpose only

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This report, for which the directors (the “Directors”) of Shenzhen Neptunus Interlong Bio-technique Company Limited (the “Company”) collectively and individually accept 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.

Contents

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. 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

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STOCK CODE

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Chairman's Statement

Dear shareholders,

During the year ended 31 December 2009 (the "Year"), the Company and its subsidiary, Ascendent Bio-Technology Company Limited and its jointly controlled entity, Shenzhen GSK-Neptunus Biologicals Co., Ltd. ("GSK-Neptunus") (collectively the "Group") carried out business reorganization and expansion plans for new businesses. The Company established a joint venture company, GSK-Neptunus, with international renowned pharmaceutical company, GlaxoSmithKline Pte Ltd ("GSK") to jointly develop the influenza vaccines business and the Company transformed from a cytokines therapeutic drugs production company to a company specialized in research and development ("R&D") business.

The Company's original cytokines business ("Cytokines Business") which includes the production and sales of recombinant human interferon α 2b for injection ("rhIFN α 2b for injection") and recombinant human interleukin-2 for injection (125Ser) ("rhIL-2 (125Ser) for injection") was underperformed in recent years. Thus the Company suspended the operation of its Cytokines Business on 16 March 2009. The Company plans to either (i) dispose of its Cytokines Business; or (ii) further develop its Cytokines Business by identifying potential partners to jointly improve or increase its cytokines products.

The influenza vaccines business is a key business to be developed by the Group. GSK-Neptunus was jointly formed and established by the Company and GSK on 6 August 2009 and beneficially held as to 60% and 40% by the Company and GSK respectively. GSK-Neptunus adopts GSK's production and quality management system and product quality standards for influenza vaccines which are leading in the global influenza vaccine field. GSK-Neptunus currently plans to develop and produce a series of influenza vaccines products, including but not limited to split influenza vaccine, improved influenza vaccine, adjuvanted influenza vaccine, 4-valent influenza vaccine and pre-pandemic flu vaccine and pandemic flu vaccines. Development of the influenza vaccine business of GSK-Neptunus will provide positive support for the Group's operations.

The Company also focuses on the R&D business and provides R&D services to Shenzhen Neptunus Pharmaceutical Company Limited ("Neptunus Pharmaceutical"), a subsidiary of Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering"), and GSK-Neptunus. The Company is currently providing R&D services for the recombinant human thymosin α 1 products of Neptunus Pharmaceutical and the H1N1 influenza vaccine products of GSK-Neptunus.

The Company is in the process of preparing the placement of new H shares, pending for the second round inspection by China Securities Regulatory Commission. The Company will actively facilitate the placing of H shares.

The Board believes the business restructuring and expansion plans of the Group will actively propel the development of the business operation 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 sraffs 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 R&D of modern biological technology (the "R&D Business") and sales of cytokine therapeutic drugs including rhIFN α 2b for injection and rhIL-2 (125Ser) for injection (the "Cytokines Products") in the PRC. During the Year, the Group has suspended the production and sales of subunit influenza vaccine and the Cytokines Products. During the Year, the Group was engaged in the development of the R&D Business and strived to introduce advanced international production and quality management system and product quality standards for influenza vaccines to further develop its influenza vaccines business through GSK-Neptunus, which was established with GSK.

Influenza Vaccine Business

The influenza vaccines business is a key business to be developed by the Group. On 9 June 2009, the Company and GSK entered into the joint venture contract (the "JV Contract "), pursuant to which GSK-Neptunus was subsequently established on 6 August 2009. Its scope of business includes: research, development, production and operation of human vaccines, and its drug production permit is valid till 6 July 2014. GSK-Neptunus is currently beneficially owned by the Company and GSK as to 60% and 40% respectively. The Board believes that GSK-Neptunus will become the operating subsidiary of the Company for the development of the influenza vaccines business.

The JV Contract provides that the term of GSK-Neptunus shall be ten years. According to the JV Contract and the articles of association of GSK-Neptunus, the total investment of GSK-Neptunus shall be US$ 99,900,000 (approximately HK$774,000,000) and the registered capital of GSK-Neptunus 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 GSK-Neptunus; (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 GSK-Neptunus; (iii) US$31,330,000 (approximately HK$243,810,000 shall be contributed by GSK and GSK will hold 40% of the equity interest in GSK-Neptunus.

According to the verification report Shenyoulianyanzi No. [2009] 0545 (深友聯驗字 [2009] 0545 號) in respect of capital contribution of GSK-Neptunus issued by Shenzhen Youlian Certified Public Accountants Partnership on 13 October 2009, as at 30 September 2009, each of the Company and GSK has contributed US$1,470,000 (approximately HK$11,390,000) and US$13,820,000 (approximately HK$107,105,000) in cash respectively to GSK-Neptunus, and the parties have completed the first phrase of contribution. According to the verification report Shenyoulianyanzi No. [2009] 0619 (深友聯驗字 [2009] 0619 號) issued by Shenzhen Youlian Certified Public Accountants Partnership on 2 November 2009, as at 2 November 2009, the Company has made a contribution in kind of approximately US$45,530,000 (approximately HK$352,860,000). According to the verification report Shenyoulianyanzi No. [2010] 006 (深友聯驗字[2010] 006號) issued by Shenzhen Youlian Certified Public Accountants Partnership on 5 February 2010, GSK has contributed US$3,690,000 (approximately HK$28,597,500) in cash to GSK-Neptunus. As at the date of this report, GSK-Neptunus has received total paid-in capital of US$64,510,000 (approximately HK$499,952,500), accounting for 82.35% of total registered capital.

Management Discussion and Analysis

GSK-Neptunus 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 core manufacturing technologies for global first class vaccines) to develop and produce a series of influenza vaccines products, including but not limited to split 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 GSK-Neptunus, GSK shall purchase from the Company 9% of the equity interests in GSK-Neptunus for a consideration equivalent to 150% of the original value of such equity interests. On each subsequent anniversary of the establishment date of GSK-Neptunus, both of the joint venture parties shall discuss in good faith and agree on further increase of GSK's equity interests in GSK-Neptunus by purchasing the equity interests held by the Company in GSK-Neptunus, provided however that, in case GSK's equity interests are below fifty percent (50%) by the 5th anniversary of the establishment date, upon GSK's request, the Company shall sell its equity interests to GSK in such percentage as necessary for GSK's equity interests in GSK-Neptunus to reach a minimum of fifty-one percent (51%) and a maximum of sixty percent (60%) of the registered capital.

During the Year, the Company completed the improvement of the existing plant with a production capacity of one million doses of influenza vaccines and is currently providing R&D services for the H1N1 influenza vaccine products of GSK-Neptunus. Such R&D services are provided under normal progress pursuant to the R&D service agreement. The influenza vaccine production base of GSK-Neptunus is currently adjusting and testing its system and equipments according to the influenza vaccine production process of GSK.

CYTOKINES BUSINESS

During the first two months of the Year, the Company was engaged in the Cytokines Business, the R&D Business and the influenza vaccines business. The sales and profit margin of Cytokines Products were not satisfactory. 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 suspended the operation of such business during the Year 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.

In view of the smooth progress on business reorganization and the gradual development of the Company's R&D Business, the Company plans to either (i) dispose of its Cytokines Business; or (ii) further develop its Cytokines Business by identifying potential partners to jointly improve or increase cytokines products. The Company is currently carrying out preparatory work for the two above-mentioned methods and will choose the one which is in the best interest of the Group.

Management Discussion and Analysis

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 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 the relevant assets owned by the Company. The Letter of Intent has no legal binding effect on the parties. In the third quarter of the Year, the parties hereto have decided to postpone the negotiation about the said acquisition and sale under the Letter of Intent.

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 Pharmaceutical, a subsidiary of Neptunus Bio-engineering. After the suspension of the Cytokines Business, the R&D Business became the main source of revenue for the Company and generated a revenue of approximately RMB3,136,000 for the Company during the Year.

To achieve its expansion plans for the R&D Business, the Company has carried out the following works for its R&D Business: (i) renovation and upgrading works for the office and laboratory; and construction works for its pilot plant; (ii) the Company has entered into a service agreement on 24 August 2009 with Neptunus Pharmaceutical for the provision of services in the research, development, animal testing, clinical trial of cytokines therapeutic drugs and other ancillary services by the Company to Neptunus Pharmaceutical; and (iii) the Company and GSK-Neptunus have entered into a master service agreement for the provision of R&D services, preclinical trial and other ancillary services by the Company to GSK-Neptunus. Pursuant to the master service agreement, the Company has been providing R&D services for H1N1 influenza vaccine to GSK-Neptunus since 1 September 2009. The above two service agreements have been determined on normal commercial terms on an arm's length basis.

PROSPECTS

The Company and GSK have established the joint venture company, GSK-Neptunus, which is now committed to the development of influenza vaccines business. With the combined experience, standing and expertise of the joint venture parties and the intangible assets provided by GSK, GSK-Neptunus 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 GSK-Neptunus. The Board also believes that the Company's equity interests in GSK-Neptunus will bring profits to the Company and enhance the Company's image and position in the global biological pharmaceutical industry.

The Company has entered into a service agreement with each of Neptunus Pharmaceutical and GSK-Neptunus. The Board estimates that these agreements will generate revenue for the Company of approximately RMB6,000,000 to RMB9,000,000 per year over the next three years. The Board therefore takes the view that the R&D Business will provide stable revenue for the Company in the coming few years.

Management Discussion and Analysis

In respect of the Cytokines Business, the Company has been negotiating with potential partners in the hope of further developing its Cytokines Business by establishing a joint venture company to research in improving and increasing cytokines products and reconstructing cytokines production lines. Any further development of the Cytokines Business in new fields will have a positive effect on the prospect of the Company.

FINANCIAL REVIEW

The Group's turnover for the Year was approximately RMB3,696,000, representing a decrease of 77.3% from that of approximately RMB16,310,000 in the corresponding period last year. Turnover for the Year 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 57.9% and 42.1% of the total revenue respectively. Reason for the decline in turnover during the year is that the Group has suspended the sales of subunit influenza vaccine and the Cytokines Products. The Company currently focuses on the expansion of its R&D Business, therefore the revenue of R&D Business accounted for a higher percentage.

The Group's gross profit and gross profit margin for the Year were approximately RMB977,000 and 26.4% respectively, decreasing by RMB7,856,000 and decreasing by 27.8% 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 Group during the Year.

The Group's selling and distribution costs for the Year amounted to approximately RMB1,157,000, decreasing by approximately RMB2,085,000 compared with that of the corresponding period last year, representing a decrease of approximately 64.3%. The decrease was due to the suspension of the sales of related medicine products by the Group and thereby no more expenses incurred during the relevant period.

The Group's administrative expenses for the Year amounted to approximately RMB25,166,000, increasing significantly by approximately RMB12,119,000 from approximately RMB13,047,000 in the corresponding period last year, representing an increase of approximately 92.9%. The increase of administrative expenses was because of two reasons: (i) the Group 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, training expenses and management services fee incurred by the Group in relation to the joint venture, acquisitions and other businesses increased significantly.

The Group's other operating expenses for the Year amounted to approximately RMB7,523,000, decreasing by approximately RMB12,711,000 compared with that of the corresponding period last year, representing a decrease of approximately 62.8%, mainly because (i) 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 Year ; (ii) the Group has provided R&D services to associated companies and recognized such revenue as of the main business, so the related R&D expense of approximately RMB1,335,000 was reclassified under the cost of main business in the Year; (iii) impairment loss of approximately RMB8,112,000 was made for stocks under the category of cytokines and intangible assets in 2008; (iv) since impairment loss was made for intangible assets under the category of cytokines in 2008, amortisation was no longer made in the Year, leading to a decline of approximately RMB902,000 in amortisation charge for intangible assets.

Management Discussion and Analysis

Finance costs of the Group for the Year amounted to approximately RMB11,663,000, representing a significant increase of approximately RMB5,832,000 as compared with approximately RMB5,831,000 for the corresponding period last year. The increase was mainly attributable to the fact that (i) 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 paid during the Year was fully recorded as finance costs; (ii) the Group obtained a new loan of RMB30 million from the Longgang Sub-branch of Shenzhen Development Bank Company Limited ("SDB") in the Year, resulting in an increase of approximately RMB943,000 in finance costs.

The Group's loss before taxation for the Year increased from approximately RMB30,871,000 in the corresponding period last year to approximately RMB37,476,000. 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 owners of the Company amounted to approximately RMB37,476,000 for the Year, compared with RMB30,595,000 for the corresponding period last year.

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.

Borrowings and banking facilities

As at 31 December 2009, the Group's total bank facilities debt was RMB136,000,000, of which RMB106,000,000 were long-term bank borrowings and RMB30,000,000 were short-term bank borrowings. Entrusted loans from the Company's controlling shareholder 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 RMB14,000,000 and interest of RMB 6,910,365 to CDB in accordance with the repayment schedule stipulated in the CDB Loan Agreement.

Management Discussion and Analysis

Shareholder's entrusted loans

Shareholder's entrusted loans obtained by the Company from Neptunus Bio-engineering as at 31 December 2009 amounted to RMB78,000,000.

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. Neptunus Bio-engineering undertook that the repayment date of this entrusted loan be postponed to 5 April 2011. However, Neptunus Bio-engineering had undertaken to the Company that it would not demand repayment of the above-mentioned 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 (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 undertook that the repayment date of this entrusted loan be postponed to 5 April 2011.

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 day after the completion of the placing of new H shares by the Company (whichever is earlier). Neptunus Bio-engineering undertook that the repayment date of this entrusted loan be postponed to 26 March 2011.

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 at least one year or no earlier than the date of the 15th working day after completion of the placing of new H shares by the Company (whichever is earlier).

On 2 December 2008, Neptunus Bio-engineering also undertook to the Company that, during 2009, if the Company had no sufficient working capital to satisfy its current needs, Neptunus Bio-engineering would provide suitable financial assistance of up to RMB30,000,000 to satisfy the Company's continued operation capabilities for 2009.

On 15 April 2009, Neptunus Bio-engineing entered into a Consolidated Credit Facilities Agreement (the "Facilities Agreement") with SDB. During the Year, Neptunus Bio-engineering has provided a transfer credit loan of RMB30,000,000 granted by SDB under the Facilities Agreement to the Company (the "Credit Loan"), and the non-interest-bearing financial assistance of RMB52,975,000.

Management Discussion and Analysis

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 Bio-engineering's ability to provide security is weakened or the value of the pledged property decreases, the CDB Loan Agreement requires the Company to provide compensatory security within a time limit set by CDB and valid security agreements should be entered into between the security providers (including 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 above-mentioned 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.

Management Discussion and Analysis

Maximum Amount of Pledge Guarantee Agreement

On 15 April 2009, Neptunus Bio-engineeing and Neptunus Pharmacentical entered into a Maximum Amount of Pledge Guarantee Agreement with SDB, pursuant to which Neptunus Bio-engineeing and Neptunus Pharmacentical provided guarantee and pledged their respective properties as security for the credit facilities under the Facilities Agreement (including the Credit Loan granted to the Company by SDB).

Although the Guarantee Agreement, the Agreement on Pledge of Shares and Maximum Amount of Pledge Guarantee Agreement executed by Neptunus Bio-engineering for the purpose of securing the CDB Loan, its shareholder's entrusted loans to the Company and the Credit Loan 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 above-mentioned 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.

Management Discussion and Analysis

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 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 GSK-Neptunus (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 GSK-Neptunus; and (ii) the consideration received from GSK for the transfer of the equity interest held by the Company in GSK-Neptunus; 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 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 GSK-Neptunus 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.

Management Discussion and Analysis

GEARING RATIO

As at 31 December 2009, the gearing ratio of the Group was approximately 83% (2008: 73%) and was calculated by a division of the net debt (total borrowings less cash and cash equivalents) of approximately RMB158,639,000 (2008: RMB194,227,000) by total capital of approximately RMB191,990,000 (2008: RMB265,089,000).

NET CURRENT ASSETS

As at 31 December 2009, the Group had net current liabilities of approximately RMB11,372,000. Current assets comprised cash and cash equivalents of approximately RMB55,361,000, amounts due from related parties of approximately RMB72,829,000, inventories of approximately RMB117,000, prepayments, deposits and other receivables of approximately RMB577,000. Current liabilities comprised trade payables of approximately RMB693,000, interest-bearing bank borrowings to be repaid within one year of approximately RMB50,000,000, taxes payable of approximately RMB2,342,000, receipts in advance and other payables of approximately RMB13,681,000, amounts due to related parties of approximately RMB73,540,000. The net current liabilities of the Group were approximately RMB31,180,000 as at 31 December 2008. The decrease of the net current liabilities of the Group in the Year was mainly due to the fact that the Company and GSK have established the joint venture company, GSK-Neptunus, GSK invested monetary funds of approximately RMB94,391,000 in the Year. As at 31 December 2009, the investment amount due from GSK was approximately RMB71,712,000.

PLEDGE OF ASSETS

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

On 24 February 2009, the Company and CDB entered into the Amendment Agreement, pursuant to which the pledge in favor of CDB against the land use rights, buildings, plant and equipment located at Baoan district of Shenzhen was released.

FOREIGN CURRENCY RISK

During the Year, the Group's operating revenue, 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.

Management Discussion and Analysis

CAPITAL COMMITMENTS

As at 31 December 2009, the Group has capital commitments of approximately RMB47,298,000. The Board believes that such capital expenditure can be paid by the funds from the Company's bank borrowings and stand by facilities from the immediate parent company.

CONTINGENT LIABILITY

As at 31 December 2009, 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 GSK-Neptunus with GSK as disclosed above, the Company did not make any other major investments.

HUMAN RESOURCES

As at 31 December 2009, the Company employed a total of 30 staff (2008: 195). During the Year, the staff costs including Directors' remuneration which amounted to approximately RMB7,050,000 (2008: approximately RMB14,132,000). 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 2009, the number of employees of the Company categorized by various functions was set out as follows:

	As at 31 December	
	2009	2008
R&D	**22**	15
Production	**—**	41
Quality control	**—**	48
Sales and marketing	**—**	13
Administration	**8**	78
Total	**30**	195

Management Discussion and Analysis

Compared with 31 December 2008, the number of employees in all departments (other than the R&D department) of the Company decreased significantly during the Year and the production, quality control and sales and marketing departments were dismissed. As the Company conducted business reorganization and implemented the expansion plan for new businesses and suspended its drug production and sales business to focus on the development of its R&D Business during the Year, the Company made substantial adjustment to the department and personnel structure. But so far no labour relations involved would give rise to any legal disputes.

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 48, has been the chairman of the Board since March 1999, and is responsible for the overall strategic planning and development of the Company. Mr. Zhang 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 49, has been appointed as 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 a former professor of the chemistry department of the Jilin University of the PRC.

NON-EXECUTIVE DIRECTORS

Ms. Yulin (于琳), aged 53, has been appointed as a Director of the Company since February 2005. Currently, she is the director and the deputy general manager of Neptunus Bio-engineering and is 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 65, has been appointed as 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 52, 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 27 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 and China Singyes Solar Technologies Holdings Limited, (the shares of which are listed on the Main Board of the Stock Exchange), an independent non-executive director and the chairman of the audit comittee of China-Biotics, Inc. the shares of which are listed on Nasdaq Global Market. Mr. Yick had been an independent non-executive director and chairman of the audit committee of Beijing Centergate Technologies (Holding) Co., Ltd. (a company listed on the Shenzhen Stock Exchange in the PRC) until December 2009 when he was subject to retirement. He was also an independent non-executive director and chairman of the audit committee of the Travelsky Technology Limited (a company listed on the Stock Exchange) when he was subject to retirement on March 16, 2010.

Directors, Supervisors and Senior Management Profile

Mr. Poon Ka Yeung (潘嘉陽), aged 43, has been appointed as 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 48, has been appointed as 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 54, 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. Yu Jun (喻軍), aged 38, has been elected as a supervisor of the Company since June 2002. Mr. Yu is now the employee of the GSK-Neptunus.

Directors, Supervisors and Senior Management Profile

SENIOR MANAGEMENT

Ms. Lee Mei Yi (李美儀), aged 42, 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 34, 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. Mr. Huang is a member of the Chinese Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries.

Ms. Xu Jing（徐靜), aged 33, 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 54, has been appointed as 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.

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 2009.

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 R&D Business 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 2009, and the published consolidated results and assets and liabilities of the Group for the Year is set out on pages 41 to 126.

DIVIDENDS

The Directors do not recommend the distribution of any dividends for the Year (2008: 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 2009, 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 RMB67,021,000.

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.

Report of the Directors

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

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 approximately 56.9% the total sales for the Year and sales to the largest customer included therein amounted to 24.6%. Purchases from the Group's five largest suppliers accounted for approximately 71.6% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 52.1%.

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

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

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

Supervisors

Mr. Xiong Chu Xiong	3 years from his appointment on 25 June 2008
Mr. Xu An Long	3 years from his appointment on 25 June 2008 (Mr. Xu has resigned on 11 May 2009 for personal reason)
Mr. Yu Jun	3 years from his re-appointment 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.

Report of the Directors

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 a term up to 24 June 2011 and is subject to termination by either party giving not less than three months' 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 and Mr. Yu Jun the remuneration of 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.

Report of the Directors

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

As at 31 December 2009, 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 Securities and Futures Ordinance ("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 of the Company and employee of the Group.

Report of the Directors

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 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 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 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 31 December 2009.

Save as disclosed above, as at 31 December 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" 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 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.

Report of the Directors

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 subsidiary 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 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 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 Bio-engineering as Ms. Wang was beneficially interested in 85% of the entire issued share capital of Ankeen Enterprises, which in turn was beneficially interested in approximately 41.9% of the entire 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 and supervisor of the Company are not aware of any other persons (except the Directors, supervisor or Chief Executives of the Company) who, as at 31 December 2009, held 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.

Report of the Directors

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 exempt from any reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

(ii) Property lease

Factory

On 1 January 2009, 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 2009 and expiring on 31 December 2009 at an 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. As the Company suspended its Cytokines Business on 16 March 2009, the property lease contract was terminated on the same date. The above-mentioned rental attributable to the year 2009 was waived by Neptunus Pharmaceutical.

On 1 January 2009, the Company and Shenzhen Neptunus Tongai Pharmaceutical Manufacturing Company Ltd. ("Tongai Pharmaceutical") entered into a property lease contract pursuant to which Tongai Pharmaceutical as landlord agreed to lease a property with a total gross floor area of approximately 3,722 sq.m. to the Company as tenant for factory and R&D manufacturing uses for a period of one year commencing from 1 January 2009 and expiring on 31 December 2009 at an 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.

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 exempt from 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 under Chapter 20 of the GEM Listing Rules.

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. 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.

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.

Report of the Directors

As the Company suspended its Cytokines Business on 16 March 2009, the Service Agreement was terminated on the same date.

During the Year, the Company has, according to the Service Agreement and the Supplementary Agreement, paid to Neptunus Pharmaceutical aggregate service fees of approximately RMB1,133,000. Such actual service fees paid do not exceed the annual cap as disclosed in the Continuing Connected Transactions Announcement.

Pharmaceutical R&D Service Agreement

On 24 August 2009, the Company and Neptunus Pharmaceutical entered into the an R&D service agreement relating to the provision of services in the research, development, animal testing, clinical trial of cytokines therapeutic drugs and other ancillary services by the Company to Neptunus Pharmaceutical (the "Pharmaceutical R&D Service Agreement"). The initial term of the Pharmaceutical R&D Service Agreement is from 24 August 2009 to 31 December 2011. According to the Pharmaceutical R&D Service Agreement, unless Neptunus Pharmaceutical terminates the Pharmaceutical R&D Service Agreement by giving to the Company three months' prior written notice before the expiry of the initial term and subject to compliance with the relevant provisions under the GEM Listing Rules, the Pharmaceutical R&D Service Agreement will be automatically renewed (on the same terms) for three years upon the expiry of the initial term.

The Company has made an announcement on 24 August 2009 and disclosed that the annual cap of the above continuing connected transaction for the period from 24 August to 31 December 2009 and the two financial years ending 31 December 2010 and 31 December 2011 would not exceed RMB800,000, RMB2,000,000 and RMB2,100,000 respectively.

During the Year, the Company has, according to the Pharmaceutical R&D Service Agreement, received from Neptunus Pharmaceutical aggregate service fees of approximately RMB502,000. Such actual service fees received do not exceed the annual cap as disclosed in the relevant announcement dated 24 August 2009.

The Board also considers the above Service Agreements, Supplemental Agreement and Pharmaceutical R&D Service Agreement entered into between the Company and Neptunus Pharmaceutical to be contracts of significance for the provision of services between the Company and its fellow subsidiary as defined under Rule 18.27 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 announcements 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 announcements 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.

Report of the Directors

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.

Report of the Directors

AUDITOR

The former auditor of the Company was Ernst & Young ("EY"). EY tendered its resignation on 25 July 2007 and CCIF CPA Limited was appointed by the Board as the auditor of the Company on 8 August 2007.

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

27 March 2010

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. 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 Year. 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. As at 31 December 2009, 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, accounting and related financial management expertise. Biographical details of the Directors are set out under the Directors and Senior Management section from pages 16 to 18.

Corporate Governance Report

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
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

(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.

Corporate Governance Report

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) AUDITOR'S REMUNERATION

An amount of approximately RMB2,281,000 (2008: RMB1,863,000) was charged to the Company's income statement for the Year as follows:

Services rendered	**Fee paid / payable Approximately** RMB
Audit services (2008: approximately RMB1,170,000)	1,234,000
Other services	1,047,000
Total:	2,281,000

Corporate Governance Report

(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 quarterly, 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' letter to the management 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 letter to the management;

(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 on Corporate Governance Practices;

(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 preparing 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 the proposed transactions under the Letter of Intent are proceeded by the parties, it will bring additional cash inflow and profits to the Company.

(c) On 2 March 2010, 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 RMB30,000,000 to support the Company's ability to continue as a going concern in 2010 if the Company's working capital is not sufficient to meet its current need.

(d) During the Year, the Company entered into the JV Contract and established GSK-Neptunus 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. The establishment and development of the GSK-Neptunus will bring additional profits and cash inflow recourses to the Company in the long term.

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
27 March 2010

INDEPENDENT AUDITOR'S REPORT

CCIF
CCIF CPA LIMITED
34/F The Lee Gardens
33 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 41 to 126, which comprise the consolidated and Company statements of financial position as at 31 December 2009 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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 owners of the Company of approximately RMB37,476,000 and net current liabilities of approximately RMB11,372,000 as at the year-end date. In addition, as at 31 December 2009, the Group had contracted commitments in respect of future capital expenditure of approximately RMB47,298,000. 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, 27 March 2010

Alvin Yeung Sik Hung
Practising Certificate Number P05206

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
TURNOVER	3,12	**3,696**	16,310
COST OF SALES		**(2,719)**	(7,477)
GROSS PROFIT		**977**	8,833
OTHER REVENUE	4	**947**	2,650
OTHER NET INCOME	4	**6,109**	—
Selling and distribution expenses		**(1,157)**	(3,242)
Administrative expenses		**(25,166)**	(13,047)
Other operating expenses		**(7,523)**	(20,234)
LOSS FROM OPERATIONS		**(25,813)**	(25,040)
Finance costs	5(a)	**(11,663)**	(5,831)
LOSS BEFORE TAXATION	5	**(37,476)**	(30,871)
Income tax	6(a)	**—**	276
LOSS FOR THE YEAR		**(37,476)**	(30,595)
Attributable to:			
Owners of the Company		**(37,476)**	(30,595)
Loss per share			
Basic	11	**RMB(3.96) cents**	RMB(3.23) cents
Diluted	11	**RMB(3.96) cents**	RMB(3.23) cents

The notes on pages 50 to 126 form part of these financial statements. Details of dividends payable to owners of the Company attributable to the year are set out in note 10.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Loss for the year	**(37,476)**	(30,595)
Other comprehensive income for the Year		
Exchange differences on translation of:		
- financial statements of a jointly controlled entity	**(35)**	—
Total other comprehensive income for the year, net of tax	**(35)**	—
Total comprehensive income for the year	**(37,511)**	(30,595)
Attributable to:		
Owners of the company	**(37,511)**	(30,595)

The notes on pages 50 to 126 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**185,044**	256,978
Interest in leasehold land held for own use under operating leases	14	**22,986**	8,434
Intangible assets	15	**79**	23,297
Deposit for acquisition of property, plant and equipment		**5,707**	—
Deferred tax assets	23(b)	**726**	726
		214,542	289,435
CURRENT ASSETS			
Inventories	18	**117**	1,994
Trade and other receivables	19	**73,406**	3,926
Cash and cash equivalents	20	**55,361**	3,773
		128,884	9,693
CURRENT LIABILITIES			
Trade and other payables	21	**87,914**	24,531
Interest-bearing bank borrowings	22	**50,000**	14,000
Tax payable	23	**2,342**	2,342
		(140,256)	(40,873)
NET CURRENT LIABILITIES		**(11,372)**	(31,180)
TOTAL ASSETS LESS CURRENT LIABILITIES		**203,170**	258,255

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	**2009**	2008
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**86,000**	106,000
Entrusted loans from the immediate parent company	24	**78,000**	78,000
Deferred revenue	25	**5,819**	3,393
		(169,819)	(187,393)
NET ASSETS		**33,351**	70,862
CAPITAL AND RESERVES			
Share capital	26	**94,667**	94,667
Reserves	27	**(61,316)**	(23,805)
TOTAL EQUITY		**33,351**	70,862

Approved and authorised for issue by the board of directors on 27 March 2010

Zhang Si Min
Director

Chai Xiang Dong
Director

The notes on pages 50 to 126 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**26,204**	256,978
Interest in leasehold land held for own use under operating leases	14	**—**	8,434
Intangible assets	15	**79**	23,297
Interest in a subsidiary	16	**—**	1,040
Interest in a jointly controlled entity	17	**298,654**	—
Deferred tax assets	23(b)	**726**	726
		325,663	290,475
CURRENT ASSETS			
Inventories	18	**99**	1,994
Trade and other receivables	19	**3,210**	3,937
Cash and cash equivalents	20	**3,479**	3,696
		6,788	9,627
CURRENT LIABILITIES			
Trade and other payables	21	**82,644**	24,531
Interest-bearing bank borrowings	22	**50,000**	14,000
Tax payable	23	**2,342**	2,342
		(134,986)	(40,873)
NET CURRENT LIABILITIES		**(128,198)**	(31,246)
TOTAL ASSETS LESS CURRENT LIABILITIES		**197,465**	259,229

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	22	**86,000**	106,000
Entrusted loans from the immediate parent company	24	**78,000**	78,000
Deferred revenue	25	**5,819**	3,393
		(169,819)	(187,393)
NET ASSETS		**27,646**	71,836
CAPITAL AND RESERVES			
Share capital	26	**94,667**	94,667
Reserves	27	**(67,021)**	(22,831)
TOTAL EQUITY		**27,646**	71,836

Approved and authorised for issue by the board of directors on 27 March 2010

Zhang Si Min
Director

Chai Xiang Dong
Director

The notes on pages 50 to 126 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2009

	Attributable to owners of the Company					
	Share capital RMB'000 *(Note 26)*	**Share premium RMB'000** *(Note 27)*	**Statutory reserve fund RMB'000** *(Note 27)*	**Exchange reserve RMB'000**	**Accumulated losses RMB'000**	**Total RMB'000**
At 1 January 2008	94,667	41,923	3,330	—	(38,463)	101,457
Comprehensive income						
Loss for the year	—	—	—	—	(30,595)	(30,595)
Total comprehensive income for the year	—	—	—	—	(30,595)	(30,595)
At 31 December 2008 and 1 January 2009	94,667	41,923	3,330	—	(69,058)	70,862
Comprehensive income						
Loss for the year	—	—	—	—	(37,476)	(37,476)
Other comprehensive income						
Exchange difference on translation of financial statements of a jointly controlled entity	—	—	—	(35)	—	(35)
Total comprehensive income for the year	—	—	—	(35)	(37,476)	(37,511)
At 31 December 2009	**94,667**	**41,923**	**3,330**	**(35)**	**(106,534)**	**33,351**

The notes on pages 50 to 126 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(37,476)**	(30,871)
Adjustments for:		
Depreciation	**8,273**	3,640
Amortisation of interest in leasehold land held for own use under operating lease	**421**	181
Amortisation of intangible assets	**1,789**	2,696
Impairment of intangible assets	**—**	6,165
Impairment of other receivable	**259**	—
Impairment of property, plant and equipment	**1,800**	—
Reversal of impairment allowance on trade receivables	**(208)**	(1,780)
Finance costs	**11,663**	5,831
Interest income	**(64)**	(135)
Subsidy income released from deferred revenue	**(574)**	(348)
Gain on disposal of assets as capital contribution to a jointly controlled entity	**(6,109)**	—
Foreign exchange gain	**(35)**	—
Written down of inventories	**35**	—
Loss on disposal of property, plant and equipment	**11**	67
Operating loss before changes in working capital	**(20,215)**	(14,554)
Decrease in inventories	**1,860**	9,918
Decrease in trade and other receivables	**3,226**	8,834
Increase in trade and other payables	**54,063**	9,477
	59,149	28,229
Cash generated from operations	**38,934**	13,675
Income tax paid - PRC	**—**	—
NET CASH GENERATED FROM OPERATING ACTIVITIES	**38,934**	13,675

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	**2009**	2008
		RMB'000	RMB'000
INVESTING ACTIVITIES			
Deposit for acquisition of property, plant and equipment		**(5,707)**	—
Payment for purchase of property, plant and equipment		**(24,539)**	(30,364)
Expenditure on technical know-how and computer software		**(457)**	(1,750)
Payment for interest in leasehold land held for own use under operating lease		**(20,555)**	—
Proceeds from disposal of property, plant and equipment		**—**	63
Decrease in pledged bank deposits		**—**	418
Interest received		**64**	135
Subsidy income received		**3,000**	300
Effect on proportionate consolidation of a jointly controlled entity		**52,609**	—
NET CASH GENERATED FROM/ (USED IN) INVESTING ACTIVITIES		**4,415**	(31,198)
FINANCING ACTIVITIES			
Proceeds from new bank loans		**30,000**	—
Repayment of bank loans		**(14,000)**	(37,000)
Proceeds from entrusted loans from the immediate parent company		**—**	30,000
Interest paid		**(7,761)**	(10,354)
NET CASH GENERATED FROM/ (USED IN) FINANCING ACTIVITIES		**8,239**	(17,354)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**51,588**	(34,877)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**3,773**	38,650
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	**55,361**	3,773

The notes on pages 50 to 126 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 of The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company, its subsidiary and its jointly controlled entity (together referred to as the "Group") is set out below.

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

b) Basis of preparation of the financial statements

The Group incurred a loss attributable to owners of the Company of approximately RMB37,476,000 (2008: approximately RMB30,595,000) and had net current liabilities of approximately RMB11,372,000 (2008: net current liabilities of approximately RMB31,180,000) as at the year end date. In addition, as further disclosed in note 31 (a) to the financial statements, as at 31 December 2009, the Group has contracted commitments for future capital expenditure of approximately RMB47,298,000 (2008:RMB20,220,000).

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of preparation of the financial statements (continued)

Financial support by the immediate parent company

The immediate parent company of the Group agreed to provide the following credit facilities to the Group:

i) 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 Sub-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 of the Company and SDB, under which the immediate parent company and the fellow subsidiary provided guarantee and pledged their respective properties as security for the credit facilities. SDB granted a credit facilities of RMB40,000,000 to the immediate parent company, and the immediate parent company transferred RMB30,000,000 of the credit facilities for the use of the Company. The Company drew down a short term loan of RMB30,000,000 from SDB in June 2009. The Company has not pledged any of its assets to SDB, the immediate parent company or the fellow subsidiary as security for the short term loan. On 2 March 2010, the immediate parent company agreed to extend the term of the Consolidated Credit Facilities Agreement for at least one year or no earlier than the date of the 15th working day after the completion of the Group's fund raising, if any, to be made in future (whichever is the earlier).

ii) In addition to (i) above, the immediate parent company indicated its intention, to provide further stand by facilities of RMB30,000,000 to the Group when required. In March 2010, the Company drew down RMB2,000,000 from the facilities.

iii) The existing three entrusted loans with a total amount of RMB78,000,000 (2008: RMB78,000,000) were outstanding as at end of the reporting period. On 18 March 2010, the repayment dates of the entrusted loans in the amount of RMB48,000,000 and RMB30,000,000 were extended to 5 April 2011 and 26 March 2011 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of preparation of the financial statements (continued)

Government grant for research and development

In January 2010, the Company received a letter from Development and Reform Commission of Shenzhen Municipality ("深圳市發展和改革委員會"). Due to the successful introduction of GSK project, the Development and Reform Commission of Shenzhen Municipality agreed to grant a RMB18,000,000 subsidy to the Company for research and development. The subsidy is not required to be repaid to Development and Reform Commission of Shenzhen Municipality.

Partial disposal of equity interest in a jointly controlled entity, Shenzhen GSK-Neptunus Biologicals Co., Ltd. ("GSK-Neptunus")

According to the joint venture contract, upon the first anniversary of the establishment date (i.e. 6 August 2010), GlaxoSmithKline Pte Limited (the "GSK") shall purchase and the Company shall sell a portion of the GSK-Neptunus' equity interest, which shall account for 9% of the registered capital of the GSK-Neptunus at a consideration equal to 150% of the original value of the GSK-Neptunus' equity interest. Based on the original value of the GSK-Neptunus' equity interest as at 31 December 2009, the estimated value of the 9% of the registered capital of the GSK-Neptunus is approximately RMB72,000,000.

Enhancement of the profitability of the Company

The Company is looking for potential partners for cooperation to produce products with shorter production cycle with a view that the Company can generate more cashflow in a shorter period and enhance the profitability of the Company. The Company is also working on plan to improve the sales and marketing strategy in order to expand the customer base and increase the revenue from providing research and development ("R&D") services to other corporations.

In the opinion of the Directors, 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 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 2009 comprise the Company and its subsidiary and the Group's interest in a jointly controlled entity.

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 all amounts are rounded to the nearest thousand except where otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of preparation of the financial statements (continued)

Enhancement of the profitability of the Company (continued)

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 amounts 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 a 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 statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)), unless the investment is classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Jointly controlled entity

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements on a proportionate consolidation basis. Under this method, the Group combines its proportionate share of a jointly controlled entity's turnover and expenses with each major turnover and expense caption of the Group's Income statement and combines its proportionate share of the jointly controlled entity's assets and liabilities with each major asset and liability caption of the Group's statement of financial position, from the date that joint control commences until the date that joint control ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised profits and losses arising from transactions with a jointly controlled entity is eliminated to the extent of the Group's interest in the jointly controlled entity except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position, interest in a jointly controlled entity is stated at cost less impairment losses, unless classified as held for sale.

e) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(h)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property, plant and equipment (continued)

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 property, plant and machinery and equipment under construction and equipment pending installation, which is stated at cost less impairment losses. Cost comprises the direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate category of property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. Depreciation of these assets, on the same basis as other property assets, commences when the assets are available for use.

f) Intangible assets

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

Other intangible assets with finite useful lives acquired by the Group are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see note 1(h)). 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 amortization period and method of amortisation are reviewed annually.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Leased assets

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

i) Classification of assets leased to the Group

Assets held by 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, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely that the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(h). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

iii) Operating lease charges

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

h) Impairment of assets

i) Impairment of receivables

Current and non-current receivable that are stated at cost or amortized cost are reviewed at the end of each reporting period 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.

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 the profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Impairment of assets (continued)

ii) Impairment of other receivables

Internal and external sources of information are reviewed at the end of each reporting period 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;
— interest in a subsidiary; and
— interest in a jointly controlled entity.

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 higher of its fair value less costs to sell and its 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 amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Impairment of assets (continued)

ii) Impairment of other receivables (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(h).

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.

i) Inventories

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) 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(h)).

k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between 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.

l) 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.

m) Cash and cash equivalents

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

n) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Employee benefits (continued)

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.

o) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Income tax (continued)

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 end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of reporting period 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 payment of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against tax liabilities, if the Group or the Company 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 Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

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

— the same taxable entity; or

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

p) Provisions and contingent liabilities

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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) *Research and development service income*

Revenue from the provision sale of services is recognised when the services are rendered.

iii) *Interest income*

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

iv) *Government grant*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit and loss over the useful life of the asset by way of reduced depreciation expense.

r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. 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 other comprehensive income.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Translation of foreign currencies (continued)

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. Items in the statement of financial position, 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 end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

s) Borrowing costs

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

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

t) Related parties

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Related parties (continued)

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.

u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

v) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income or net off against directly related borrowing costs (see note 1(s)), over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is presented as deferred revenue and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HKFRSs (Amendments)	Improvement to HKFRSs issued in 2008, except for the amendments to HKFRS 5 which is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to amendment to paragraph 80 of HKAS39
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC) - Int 9 & HKAS39 (Amendments)	Embedded Derivatives
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 15	Agreements for the construction of real estate
HK(IFRIC) - Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC) - Int 18	Transfers of assets from customers

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

The amendments to HKAS 23 and HKFRS 2 and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 have had no material impact on the Group's financial statements as the amendments and interpretations were either irrelevant or were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- 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 products 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 chief operating decision maker, and has resulted in additional reportable segments being identified and presented (see note 12). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with the owners in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 29(e) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

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

- The "Improvements to HKFRSs (2008)" comprise a number of amendments to a range of HKFRSs. Of these, the following two amendments have resulted in changes to the Group's accounting policies:

  — As a result of amendments to HKAS 28, Investments in associates, impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

  — The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Group would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3. TURNOVER

The principal activities of the Group are the R&D of modern biological technology and the provision of R&D services, production and sales of cytokine therapeutic medicines 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, after allowances for returns and trade discounts and net invoiced value of R&D services provided of net sale tax.

	2009	2008
	RMB'000	RMB'000
Sales of medicines	**2,140**	16,310
R&D service income	**1,556**	—
	3,696	16,310

Further details regarding the Group's principal activities are disclosed in note 12 to these financial statements.

4. OTHER REVENUE AND OTHER NET INCOME

	2009	2008
	RMB'000	RMB'000
Other revenue		
Interest income on bank deposits	**64**	135
Total interest income on financial assets not at fair value through profit or loss	**64**	135
Subsidy income released from deferred revenue – (Note 25)	**574**	348
Reversal of impairment allowance on trade receivable – (Note 19)	**208**	1,780
Exchange gain	**27**	—
Others	**74**	387
	947	2,650
Other net income		
Gain on disposal of assets as capital contribution to a jointly controlled entity	**6,109**	—

5. LOSS BEFORE TAXATION

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

	2009 RMB'000	2008 RMB'000
a) Finance costs:		
Interest on bank loans wholly repayable within five years	**7,761**	453
Interest on bank loans wholly repayable after five years	**—**	9,901
Interest on entrusted loans from the immediate parent company	**3,902**	3,954
Total interest expense on financial liabilities not at fair value through profit or loss	**11,663**	14,308
Less: Government grant for compensation of loan interest expense *	**—**	(2,454)
	11,663	11,854
Less: Interest expense capitalized as cost of construction in progress (Note 13)	**—**	(6,023)
	11,663	5,831

* During the year ended 31 December 2008, the Company received a grant of RMB2,454,000 from Shenzhen Bureau of Finance and Shenzhen Bureau of Trade and Industry to subsidize interest incurred in a loan borrowed by the Company for improvement work of those plant for the production of influenza vaccine, during the year of the grant. The grant was was made to selected companies in Shenzhen to encourage companies to improve their production technology in different industries. The grant was unconditional and not repayable. There was no unfulfilled conditions or other contingencies attaching to such grant that had not been recognised.

The borrowing costs have been capitalised at a rate of Nil% per annum (2008: 3.76% - 5.49 %)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. LOSS BEFORE TAXATION (continued)

	2009 RMB'000	2008 RMB'000
b) Staff costs:		
Contributions to defined contribution retirement plan	**440**	496
Salaries, wages and other benefits (including directors' emoluments)	**5,707**	7,170
	6,147	7,666
c) Other items:		
Amortisation		
– interest in leasehold land held for own use under operating leases	**421**	181
– intangible assets *	**1,789**	2,696
Depreciation		
– assets held for own use under operating leases	**2,604**	359
– other assets	**5,669**	3,281
Impairment of		
– intangible assets *	**—**	6,165
– trade receivables *	**—**	249
– other receivables *	**259**	—
– property, plant and equipment *	**1,800**	—
Write down of inventories *	**35**	1,947
Net foreign exchange loss	**—**	84
Loss on disposal of property, plant and equipment *	**11**	67
Auditor's remuneration		
– audit services	**1,234**	1,173
– other services	**1,047**	693
Operating lease charges: minimum lease payments	**373**	167
Cost of inventories	**1,384**	7,477
R&D costs *	**3,628**	8,236

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) Income tax in the consolidated income statement represents:

	2009	2008
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax	**—**	—
Deferred tax		
Origination and reversal of temporary differences (Note 23(b))	**—**	(84)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**—**	360
	—	276

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 2009 is 25% (2008: 25%). The EIT has not been provided for as the Group has no assessable income 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.

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

	2009	2008
	RMB'000	RMB'000
Loss before taxation	**(37,476)**	(30,871)
Notional tax on loss before taxation, calculated at the rates applicable to profits on the tax jurisdictions concerned	**(12,958)**	(7,685)
Tax effect of non-deductible expenses	**3,146**	3,736
Tax effect of non-taxable income	**(144)**	(532)
Tax effect of unused tax losses not recognised	**9,956**	4,397
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**—**	360
Actual tax expenses	**—**	276

7. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended 31 December 2009 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	2009 Total RMB'000
Executive directors				
Mr. Zhang Si Min	100	—	—	100
Mr. Chai Xiang Dong	112	341	14	467
Non-executive directors				
Ms. Yu Lin	112	—	—	112
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
	948	341	14	1,303

7. DIRECTORS' EMOLUMENTS (continued)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2008: two) is director of the Company whose emoluments are included in the disclosures in note 7. The emoluments of the remaining four (2008: three) individuals are as follows:

	2009	2008
	RMB'000	RMB'000
Salaries and other benefits	**1,125**	1,152
Retirement scheme contributions	**24**	29
	1,149	1,181

Their emoluments are all within the band RMB Nil to RMB1,000,000 for years ended 31 December 2009 and 2008.

9. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of RMB44,190,000 (2008: RMB30,200,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

The directors do not propose the payment of any dividend for the years ended 31 December 2009 in view of the losses for the respective year (2008: nil).

11. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of RMB37,476,000 (2008: RMB30,595,000) and the weighted average number of 946,670,000 ordinary shares (2008: 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 both periods presented.

12. SEGMENT REPORTING

The Group manages its business 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 Segment and in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purpose 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 R&D service of modern biological technology.

Currently all the above Group's activities are carried out in the PRC.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade payables, other payables and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing the assets is not measured.

The measure used for reporting segment profit is "adjusted EBITDA", that is "adjusted earnings before interest, taxes, depreciation and amortisation". To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue including inter-segment sales, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, and amortisation, and impairment loss and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

12. SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment performance for the year ended 31 December 2009 and 2008 is set out below.

	Manufacturing and selling medicine products						R&D service			
	PRC		Others		Sub-total		PRC		Total	
For the year ended 31 December	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Revenue from external customers	**2,140**	12,701	**–**	3,776	**2,140**	16,477	**3,136**	–	**5,276**	16,477
Inter-segment revenue	**–**	(167)	**–**	–	**–**	(167)	**(1,580)**	–	**(1,580)**	(167)
Reportable segment revenue	**2,140**	12,534	**–**	3,776	**2,140**	16,310	**1,556**	–	**3,696**	16,310
Reportable segment loss (adjusted EBITDA)	**(16,803)**	(11,239)	**–**	(396)	**(16,803)**	(11,635)	**(199)**	–	**(17,002)**	(11,635)
Interest income from bank deposit	**64**	135	**–**	–	**64**	135	**–**	–	**64**	135
Interest expenses	**11,663**	5,831	**–**	–	**11,663**	5,831	**–**	–	**11,663**	5,831
Depreciation and amortisation										
– Property, plant and equipment	**7,736**	3,640	**–**	–	**7,736**	3,640	**537**	–	**8,273**	3,640
– Prepaid lease payment	**421**	181	**–**	–	**421**	181	**–**	–	**421**	181
– Intangible assets	**1,789**	2,696	**–**	–	**1,789**	2,696	**–**	–	**1,789**	2,696
Write-down of inventory	**35**	1,947	**–**	–	**35**	1,947	**–**	–	**35**	1,947
Impairment of intangible assets	**–**	6,165	**–**	–	**–**	6,165	**–**	–	**–**	6,165
Impairment of trade receivables	**–**	249	**–**	–	**–**	249	**–**	–	**–**	249
Impairment of other receivables	**259**	–	**–**	–	**259**	–	**–**	–	**259**	–
Impairment of property, plant and equipment	**1,800**	–	**–**	–	**1,800**	–	**–**	–	**1,800**	–
Reportable segment assets	**341,530**	298,338	**75**	76	**341,605**	298,414	**3,000**	–	**344,605**	298,414
Additions to fixed assets (i.e. non-current assets other than financial assets and deferred tax assets)	**46,290**	36,387	**–**	–	**46,290**	36,387	**2,123**	–	**48,413**	36,387
Reportable segment liabilities	**309,638**	225,936	**–**	–	**309,638**	225,936	**–**	–	**309,638**	225,936

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

12. SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenue. In 2009 revenue from sales of medicine to and R&D services income received from this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately RMB 536,000 and RMB 1,053,000 respectively (2008: RMB3,369,000 and RMBNil respectively). Details of concentrations of credit risk arising from this customer and set out in note 29(a).

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

	2009	2008
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**5,276**	16,477
Elimination of inter-segment revenue	**(1,580)**	(167)
Consolidated turnover	**3,696**	16,310

	2009	2008
	RMB'000	RMB'000
Loss		
Reportable segment loss	**(17,002)**	(11,635)
Elimination of inter-segment profit	**—**	—
Reportable segment loss derived from the Group's external customers	**(17,002)**	(11,635)
Other revenue and other net income	**7,056**	2,650
Depreciation and amortisaton	**(10,483)**	(6,517)
Finance costs	**(11,663)**	(5,831)
Impairment losses on non-current assets	**(1,800)**	(6,165)
Unallocated head office and corporate expense	**(3,584)**	(3,373)
Consolidated loss before taxation	**(37,476)**	(30,871)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

12. SEGMENT REPORTING (continued)

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

	2009 RMB'000	2008 RMB'000
Assets		
Reportable segment assets	**344,605**	298,414
Elimination of inter-segment receivables	**(1,905)**	(12)
	342,700	298,402
Unallocated head office and corporate assets	**—**	—
Deferred tax assets	**726**	726
Consolidated total assets	**343,426**	299,128
Liabilities		
Reportable segment liabilities	**309,638**	225,936
Elimination of inter-segment payables	**(1,905)**	(12)
	307,733	225,924
Tax payable	**2,342**	2,342
Unallocated head office and corporate liabilities	**—**	—
Consolidated total liabilities	**310,075**	228,266

c) Geographic Information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical location of the customers is refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include fixed assets, intangible assets and deposit for acquisition of property, plant and equipment. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of intangible assets, it is based on the location of operation to which these intangibles are allocated.

	Revenue from external customers		**Non-current assets**	
	2009 **RMB'000**	2008 RMB'000	**2009** **RMB'000**	2008 RMB'000
PRC	**3,696**	12,534	**213,816**	288,709
Pakistan	**—**	3,369	**—**	—
Others*	**—**	407	**—**	—
	3,696	16,310	**213,816**	288,709

* Others included Indonesia and Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT

a) The Group

	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 2009	129,208	35,304	2,466	8,834	100,304	276,116
Additions	—	2,160	—	355	22,024	24,539
Disposals	—	(20)	—	(16)	—	(36)
Effect on proportionate consolidation of a jointly controlled entity*	(43,423)	(26,907)	(1,014)	(4,360)	(21,304)	(97,008)
Transfer in/(out)	—	60,967	—	(471)	(60,496)	—
At 31 December 2009	85,785	71,504	1,452	4,342	40,528	203,611
Accumulated depreciation and impairment						
At 1 January 2009	(819)	(12,473)	(1,550)	(4,296)	—	(19,138)
Charge for the year	(2,604)	(4,452)	(262)	(955)	—	(8,273)
Written back on disposals	—	15	—	10	—	25
Impairment	—	—	—	—	(1,800)	(1,800)
Effect on proportionate consolidation of a jointly controlled entity*	3,198	2,484	1,020	3,917	—	10,619
At 31 December 2009	(225)	(14,426)	(792)	(1,324)	(1,800)	(18,567)
Carrying amount						
At 31 December 2009	85,560	57,078	660	3,018	38,728	185,044

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT (continued)

a) The Group (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 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)
Carrying amount						
At 31 December 2008	128,389	22,831	916	4,538	100,304	256,978

i) A number of construction projects were replaced by new construction projects during the year 2009. The Group assessed the recoverable amount of those assets and as a result, the carrying amount of the property, plant and equipment was written down by RMB1,800,000. The estimates of recoverable amount were based on depreciated replacement cost method performed by an independent professional valuer – RHL Apprisal Limited, who have among their staff, fellow members of the Hong Kong Institute of Surveyors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT (continued)

b) 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 2009	129,208	35,304	2,466	8,834	100,304	276,116
Additions	—	2,160	—	248	18,313	20,721
Disposal	—	(20)	—	(16)	—	(36)
Effect on proportionate consolidation of a jointly controlled entity*	(129,208)	(63,607)	(1,524)	(6,493)	(53,296)	(254,128)
Transfer in/(out)	—	60,967	—	(471)	(60,496)	—
At 31 December 2009	—	34,804	942	2,102	4,825	42,673
Accumulated depreciation						
At 1 January 2009	(819)	(12,473)	(1,550)	(4,296)	—	(19,138)
Charge for the year	(2,379)	(4,405)	(255)	(936)	—	(7,975)
Written back on disposals	—	15	—	10	—	25
Effect on proportionate consolidation of a jointly controlled entity*	3,198	2,484	1,020	3,917	—	10,619
At 31 December 2009	—	(14,379)	(785)	(1,305)	—	(16,469)
Carrying amount						
At 31 December 2009	—	20,425	157	797	4,825	26,204

13. PROPERTY, PLANT AND EQUIPMENT (continued)

b) 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 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)
Carrying amount						
At 31 December 2008	128,389	22,831	916	4,538	100,304	256,978

* The Company contributed certain property, plant and equipment to its jointly controlled entity as capital contribution during the year. (Note 17)

i) All buildings are situated on land in the PRC under medium-term leases. During the year, net borrowing costs capitalized after deducting government subsidy of RMBNil (2008: approximately RMB2,454,000) amounted to approximately RMBNil (2008: approximately RMB6,023,000) (Note 5). Such costs related to funds borrowed specifically for the purpose of the above construction-in-progress.

ii) At 31 December 2008, certain of the Group's buildings, equipment and construction-in-progress with a carrying amount of approximately RMB184,492,000 were pledged to secure the Group's bank loan of RMB120,000,000 (Note 22). The pledge of the Company's buildings, equipment and construction-in-progress were released on 24 February 2009.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Outside Hong Kong:				
– medium-term leases	**108,546**	136,823	**—**	136,823
Representing:				
Buildings carried at cost	**85,560**	128,389	**—**	128,389
Interest in leasehold land held for own use under operating leases – (Note 14)	**22,986**	8,434	**—**	8,434
– medium-term leases	**108,546**	136,823	**—**	136,823

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At cost				
At 1 January and 31 December	**9,037**	9,037	**9,037**	9,037
Additions	**23,417**	—	**20,647**	—
Effect on proportionate consolidation of a jointly controlled entity*	**(9,436)**	—	**(29,684)**	—
At 31 December	**23,018**	9,037	**—**	9,037
Accumulated amortisation				
At 1 January	**(603)**	(422)	**(603)**	(422)
Charge for the year	**(421)**	(181)	**(389)**	(181)
Effect on proportionate consolidation of a jointly controlled entity*	**992**	—	**992**	—
At 31 December	**(32)**	(603)	**—**	(603)
Carrying Amount				
At 31 December	**22,986**	8,434	**—**	8,434

All the interest in leasehold land represent prepaid lease payments for land are situated in the PRC under medium term leases.

At 31 December 2008, the interest in leasehold land held for own use under operating lease with a carrying amount of approximately RMB8,434,000 was pledged to secure the Group's bank loan of RMB120,000,000 (Note 22). The pledge of the interest in leasehold land held for own use under operating lease was released on 24 February 2009.

* The Company contributed the interest in leasehold land held for own use under operating lease to its jointly controlled entity as part of the capital contribution during the year. (Note17)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 2009	24,949	19,443	44,392	356	75	44,823
Addition through internal development	457	—	457	—	—	457
Effect on proportionate consolidation of a jointly controlled entity*	(25,406)	(19,443)	(44,849)	—	—	(44,849)
	—	—	—	356	75	431
Accumulated amortisation and impairment						
At 1 January 2009	(16,453)	(4,805)	(21,258)	(234)	(34)	(21,526)
Charge for the year	(1,705)	—	(1,705)	(76)	(8)	(1,789)
Effect on proportionate consolidation of a jointly controlled entity*	18,158	4,805	22,963	—	—	22,963
At 31 December 2009	—	—	—	(310)	(42)	(352)
Carrying amount						
At 31 December 2009	—	—	—	46	33	79

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 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 amortization 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. INTANGIBLE ASSETS (continued)

The Group and the Company (continued)

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

Except for technical know-how with a carrying amount at 31 December 2009 of approximately RMBNil (2008: approximately RMB8,496,000), 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.

* The Company contributed the intangible assets to its jointly controlled entity as part of its capital contribution during the year. (Note 17)

The major technical know-how, which is registered in the PRC, relates to influenza vaccine with a carrying amount of approximately RMBNil (2008: approximately RMB16,735,000) and the remaining amortisation period is Nil years (2008: 8 years).

A number of technical know how for the manufacturing and selling medicine products were closed during the year 2008. As at 31 December 2008, the recoverable amount of the technical know-how of approximately RMB23,134,000 has been assessed based on a value-in-use calculation using a discount rate of 20% - 25% 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 unfavorable economic situations and the decrease in demand of certain products, the carrying amount of the technical know-how as at 31 December 2008 was impaired of RMB6,165,000 (included in "other operating expenses").

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

16. INTEREST IN A SUBSIDIARY

	The Company	
	2009	2008
	RMB'000	RMB'000
Unlisted shares at cost	**1,040**	1,040
Less: impairment loss	**(1,040)**	—
	—	1,040

Amount due from a subsidiary is unsecured, interest-free and is expected to be recovered within one year.

In 2008, the principal activity of the subsidiary is trading of medicines. During the year 2009, the subsidiary became dormant and it is expected that no further selling medicine business activities will be conducted to generate sufficient income to fully repay the outstanding balance due to the Company. The investment cost of RMB1,040,000 and the amount due from the subsidiary of approximately RMB311,000 were assessed to be fully impaired.

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	Equity Interest held by the Company directly	Principal activity
Ascendent Bio-Technology Company Limited	Hong Kong	HK$1	100%	Dormant

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Company	
	2009	2008
	RMB'000	RMB'000
Unlisted shares, at cost	**305,654**	—
Less: impairment loss	**(7,000)**	—
	298,654	—

Details of the Group's interest in the jointly controlled entity are as follows:

Name of joint Venture	Form of business structure	Place of incorporation and operation	Particulars of registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the company	Principal activity
GSK – Neptunus	Incorporated	PRC	USD78,330,000	60% (Note ii)	60%	Manufacturing and selling of medicines

(i) On 9 June 2009, the Company and GSK entered into a joint venture contract for the establishment of GSK-Neptunus, a sino-foreign equity joint venture company. GSK-Neptunus was incorporated in the PRC on 6 August 2009 with its equity capital owned as to 60% by the Company and 40% by GSK.

(ii) Pursuant to the articles of association of the GSK-Neptunus, the board of directors of the GSK-Neptunus shall initially consist of six directors, of whom three shall be nominated by the Company and three shall be nominated by GSK, both parties having equal voting rights in the management and control of the GSK-Neptunus. As such, the GSK-Neptunus is considered as a jointly controlled entity of the Group.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

(iii) The registered capital of the GSK-Neptunus is US$78,330,000 (approximately RMB535,000,000). As at 31 December 2009, the Company contributed assets with an agreed value of US$45,530,000 (approximately RMB311,000,000) and made a cash contribution of US$1,470,000 (approximately RMB10,000,000) to the GSK-Neptunus in return for a 60% stake in the GSK-Neptunus. GSK Pte had contributed cash of US$13,820,000 (approximately RMB94,710,000), with a remaining balance of US$17,510,000 (approximately RMB120,000,000) to be contributed in cash in return for 40% stake in the GSK-Neptunus.

On 2 February 2010, GSK made another cash contribution of US$3,690,000 (approximately RMB25,290,000) to the GSK-Neptunus. Within the earlier of 10 working days after the GSK-Neptunus has obtained the good manufacturing practice certification for the SFDA for the site or within two years after the incorporation date of the GSK-Neptunus, GSK shall make a further cash contribution for the remaining balance of US$13,820,000 (approximately RMB94,710,000) to the GSK-Neptunus.

(iv) Assets contributed by the Company into the GSK-Neptunus as capital contribution during the year include property, plant and equipment (Note 13), interest in leasehold land held for own use under operating leases (Note 14), and intangible assets (Note 15).

(v) During the year, the carrying amount of the GSK-Neptunus had been impaired by approximately RMB7,000,000 through the recognition of impairment losses. After considering the operating performance of the GSK-Neptunus entity, the directors are of the opinion that impairment losses of approximately RMB7,000,000 should be recognized.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

Summary financial information on jointly controlled entity - Group's effective interest:

	2009 RMB'000	2008 RMB'000
Assets:		
Non-current assets	**196,696**	—
Current assets	**123,615**	—
	320,311	—
Liabilities:		
Non-current liabilities	**—**	—
Current liabilities	**(6,865)**	—
	(6,865)	—
Net assets	**313,446**	—
Income	**78**	—
Expenses	**(7,523)**	—
Loss after income tax	**(7,445)**	—
Proportionate interest in the jointly controlled entity's capital commitments	**32,746**	—

The jointly controlled entity did not have any operating lease commitments as at 31 December 2009 (2008: Nil).

There are no contingent liabilities relating to the Group's interest in the jointly controlled entity and the jointly controlled entity did not have any material contingent labilities as at 31 December 2009 (2008: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. INVENTORIES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**117**	175	**99**	175
Work in progress	**—**	960	**—**	960
Finished goods	**—**	859	**—**	859
	117	1,994	**99**	1,994

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount of inventories sold	**1,384**	7,477	**1,384**	7,477
Write down of inventories	**35**	1,947	**35**	1,947

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**308**	819	**308**	819
Less: allowance for doubtful debts	**(308)**	(726)	**(308)**	(726)
	—	93	**—**	93
Amount due from a subsidiary	**—**	—	**—**	11
Amount due from fellow subsidiaries (Note 30d)	**—**	1,267	**—**	1,267
Amount due from a jointly controlled entity (Note 30d)	**1,063**	—	**2,659**	—
Amount due from a director (Note 30d)	**44**	—	**44**	—
Amount due from related companies (Note 30d)	**71,722**	10	**10**	10
Other receivables	**125**	22	**60**	22
Loans and receivables	**72,954**	1,392	**2,773**	1,403
Prepayments and deposits	**452**	2,534	**437**	2,534
	73,406	3,926	**3,210**	3,937

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

19. TRADE AND OTHER RECEIVABLES (continued)

a) Ageing analysis

An ageing analysis of trade receivables net of allowance for doubtful debts of RMB308,000 (2008: RMB726,000) as at the end of the reporting period is as follows:

	The Group and the Company	
	2009	2008
	RMB'000	RMB'000
Within 3 months	**—**	85
More than 3 months but less than 12 months	**—**	8
Over 12 months	**—**	—
	—	93

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).

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(h)(i)).

Movements in the allowance for doubtful debts

	The Group and the Company	
	2009	2008
	RMB'000	RMB'000
At 1 January	**726**	6,084
Impairment loss recognised (note i)	**—**	249
Reversal of impairment allowance (note ii)	**(208)**	(1,780)
Uncollectible amounts written off (note iii)	**(210)**	(3,827)
At 31 December	**308**	726

19. TRADE AND OTHER RECEIVABLES (continued)

b) Impairment of trade receivables (continued)

Note:

i) As at 31 December 2009, trade receivables of the Group amounting to RMBNil (2008: 249,000) 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 end of the reporting period or were due from companies with financial difficulties.

ii) 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 in 2008. In 2009, the Group recovered a long outstanding trade receivable which was impaired in previous year.

iii) RMB210,000 (2008: RMB3,827,000) of the trade receivables previously considered as impaired and provided for was written off in 2009. The amount represented the long-outstanding trade receivables which were not collectible even with the assistance of the independent third party as mentioned in note (ii).

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

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 and the Company	
	2009	2008
	RMB'000	RMB'000
Neither past due nor impaired	**—**	85
3 to 6 months past due	**—**	—
Over 12 months past due	**—**	—
	—	85

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank deposits with original maturities within three months	**34,826**	—	**—**	—
Cash at bank and on hand	**20,535**	3,773	**3,479**	3,696
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**55,361**	3,773	**3,479**	3,696

Deposit with banks carry interest at market rates which range from 0.36% to 2.25%(2008: 0.72% to 2.25%)

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**693**	1,356	**693**	1,356
Receipt in advance	**1,705**	1,700	**1,705**	1,700
Other payables and accrual	**11,976**	6,399	**7,811**	6,399
Amount due to a related company (Note 30d)	**1,105**	—	**—**	—
Amount due to fellow subsidiaries (Note 30d)	**482**	—	**482**	—
Amount due to the immediate parent company (Note 30d)	**71,953**	15,076	**71,953**	15,076
Financial liabilities measured at amortised cost	**87,914**	24,531	**82,644**	24,531

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. TRADE AND OTHER PAYABLES (continued)

An ageing analysis of trade payables as at the end of the reporting period, based on the invoice date is as follows:

	The Group and the Company	
	2009	2008
	RMB'000	RMB'000
Within 3 months	**—**	101
4 to 6 months	**—**	314
7 to 12 months	**—**	269
Over 1 year	**693**	672
	693	1,356

22. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	The Group and the Company	
			2009	2008
			RMB'000	RMB'000
Short-term bank loan - secured	(a) 5.31%	2010	**30,000**	—
Current portion of:				
Long-term bank loan - secured	(b) 3.76 - 5.49%	2014	**20,000**	14,000
Non-current portion of:				
Long-term bank loan - secured	(b) 3.76 - 5.49%	2014	**86,000**	106,000
			136,000	120,000

22. INTEREST-BEARING BANK BORROWINGS (continued)

At 31 December 2009, the interest-bearing bank borrowings were repayable as follows:

	The Group and The Company	
	2009	2008
	RMB'000	RMB'000
Within 1 year or on demand	**50,000**	14,000
After 1 year but within 2 years	**24,000**	20,000
After 2 years but within 5 years	**62,000**	76,000
After 5 years	**—**	10,000
	86,000	106,000
	136,000	120,000

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

(a) During the year, Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering") and Shenzhen Neptunus Pharmaceutical Co., Ltd. ("Neptunus Pharmaceutical") provided guarantee and pledged their respective properties as security for the Company short-term bank loan of RMB30,000,000 (2008: RMBNil). (Note 30(b)(xvii))

22. INTEREST-BEARING BANK BORROWINGS (continued)

(b) In 2008, the Group's bank loans of RMB120,000,000 utilized were secured by:

(i) mortgages over the Group's interest in leasehold land held for own use under operating leases situated in the PRC, which had an aggregate carrying amount at the year end date of approximately RMB8,434,000;

(ii) mortgages over the Group's buildings, equipment and construction-in-progress, which had an aggregate carrying amount at the year end date of approximately RMB184,492,000;

(iii) the pledge of 639,000,000 domestic shares of the Company held by Neptunus Bio-engineering (Note 30(b) (xvi)) the immediate parent Company;

(iv) the pledge of 47,671,000 domestic shares of the Company held by Mr. Chai Xiang Dong, an executive director of the Company (Note 30(b) (xvi)); and

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

(c) The mortgages on Group's assets in (i) and (ii) were released on 24 February, 2009 and Neptunus Bio-engineering, Shenzhen Neptunus Group Company Limited (ultimate controlling parent company)(the 'Neptunus Group') entered into a guarantee agreement with the bank to guarantee the repayment of all sum owing by the Company under the loan agreement. As at year end date, the immediate parent company and executive director of the company pledge its domestic shares of the Company of 639,000,000 and 47,671,000 respectively to secure the Group's bank loan. (Note 30(b)(xvi))

In addition, the Company's immediate parent company and Neptunus Group has given corporate guarantee for the above bank loan. At the end of the reporting period, the outstanding bank loan amounted to RMB106,000,000 (2008: RMB120,000,000) (Note 30(b)(xv)).

23. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

a) Current taxation in the statement of financial position represents:

	The Group and The Company	
	2009	2008
	RMB'000	RMB'000
Provision for the year		
– PRC Enterprise Income tax	**—**	—
Balance of PRC Enterprise Income tax provision relating to prior year	**2,342**	2,342
	2,342	2,342

b) Deferred tax assets and liabilities recognised:

The Group and the Company

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Total
	RMB'000
Deferred tax arising from accrued expenses:	
At 1 January 2008	450
Credited to profit or loss	276
At 31 December 2008 and 1 January 2009	**726**
Credited to profit or loss	**—**
At 31 December 2009	**726**

c) Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of RMB71,162,000 (2008: RMB47,073,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. ENTRUSTED LOANS FROM IMMEDIATE PARENT COMPANY

The Group and the Company

The entrusted loans from the immediate parent company were unsecured, bearing interest at 5.00% and 7.47% per annum (2008: 5.00% and 7.47% 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 for at least one year or no earlier than the date of the 15th working day after the completion of the placing of new H shares by the Company (whichever is earlier).

On 18 March 2010, the immediate parent company further agreed that the repayment dates of the entrusted loans in the amount of RMB48,000,000 and RMB30,000,000 were extended to 5 April 2011 and 26 March 2011 respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

25. DEFERRED REVENUE

The Group and the Company

	Subsidy A	Subsidy B	Subsidy C	Subsidy D	Subsidy E	Subsidy F	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)	(Note b)	(Note c)	(Note d)	(Note e)	(Note f)	
Cost							
At 1 January 2008	500	500	3,000	400	—	—	4,400
Additions	—	—	—	—	300	—	300
At 31 December 2008 and 1 January 2009	500	500	3,000	400	300	—	4,700
Additions	—	—	—	—	—	3,000	3,000
At 31 December 2009	500	500	3,000	400	300	3,000	7,700
Accumulated Amortization							
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
At 1 January 2009	200	—	874	233	—	—	1,307
Released to income statement for the year	50	—	524	—	—	—	574
At 31 December 2009	**250**	**—**	**1,398**	**233**	**—**	**—**	**1,881**
Carrying Amount							
At 31 December 2009	**250**	**500**	**1,602**	**167**	**300**	**3,000**	**5,819**
At 31 December 2008	300	500	2,126	167	300	—	3,393

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

25. DEFERRED REVENUE

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 (2008: RMB50,000) was recognized as income 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 2009 and 2008.

c) In December 2004, a subsidy of RMB2,000,000 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 to subsidize the acquisition of certain plant and machinery. A further subsidy of RMB1,000,000 for the same purpose was granted in July 2005. These subsidies are not required to be repaid and an amount of approximately RMB524,000 (2008: RMB298,000) was recognised as income 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 recognised as income for 2009 and 2008.

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 2009 and 2008.

f) In December 2009, a subsidy of RMB3,000,000 was granted by Shenzhen Bureau of Science, Technology and Information Council for financing a project to carry out the research and development of HINI. The subsidy is not required to be repaid to Shenzhen Bureau of Science, Technology and Information Council. Since the Company has not yet obtained the approval for the project, the subsidy was not recognized as income for 2009.

The directors consider that, except for the subsidies mentioned in note 4 and note 25, there were no other forms of government assistance from which the Group has directly benefited.

26. SHARE CAPITAL

	2009 Number of shares '000	2008 Number of shares '000	**2009 RMB'000**	2008 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.

The owners of domestic shares and H shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All domestic shares and H shares rank equally with regard to the Company's residual assets.

27. RESERVES

a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity.

b) The Company

	Share premium	Statutory reserve fund	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	41,923	3,330	(37,884)	7,369
Loss for the year	—	—	(30,200)	(30,200)
At 31 December 2008 and 1 January 2009	41,923	3,330	(68,084)	(22,831)
Loss for the year	—	—	(44,190)	(44,190)
At 31 December 2009	41,923	3,330	(112,274)	(67,021)

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.

c) Share premium

Share premium arose from the issuance of share at prices in excess of their par value less share issue expenses.

d) Statutory Reserve Fund

The Company is required to allocate at least 10% of its net profit according to its PRC audited 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.

e) Distributability of reserves

At 31 December 2009, the Company had no distributable reserves, while its accumulated losses, calculated in accordance with the Company's Articles of Association and relevant rules and regulations, amounted to RMB67,021,000.

27. RESERVES (continued)

f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing bank borrowings and entrusted loans from the immediate parent company) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends plus adjusted net debt.

During 2009, the Group's strategy, which was unchanged from 2008, was to maintain a gearing ratio within 30% to 70%. The gearing ratio at 31 December 2009 and 2008 was as follows:

	2009 **RMB'000**	2008 RMB'000
Total borrowings		
Interest-bearing bank borrowings (Note 22)	**136,000**	120,000
Entrusted loans from the immediate parent company (Note 24)	**78,000**	78,000
	214,000	198,000
Less: Cash and cash equivalents (Note 20)	**(55,361)**	(3,773)
Adjusted net debt	**158,639**	194,227
Total equity	**33,351**	70,862
Adjusted capital	**191,990**	265,089
Gearing ratio	**83%**	73%

As at 31 December 2009, the gearing ratio of the Group was 83%, which was higher than the range set by the Group. The Group is in the process of considering the possibility of placing of new shares or redemption of existing debt. Neither the company nor its subsidiary and jointly controlled entity are subject to externally imposed capital requirements.

28. CONTINGENT LIABILITY

At the end of the reporting period, 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 interest-bearing bank borrowings, trade and other receivables and trade and other payables. Details of the financial instruments are disclosed in the 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 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position 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 end of the reporting period, the Group had no significant concentrations of credit risk which individual trade and other receivable's balance exceeds 10% of the total trade and other receivables at the end of the reporting period.

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 end of the reporting period 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 end of the reporting period) and the earliest date the Group and the Company required to pay:

The Group and the Company

	2009							2008						
	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 years	More than 5 years	Total contractual undiscount cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Secured short-term bank loans - fixed rates	5.31%	30,664	–	–	–	30,664	30,000	–	–	–	–	–	–	–
Secured bank loans - variable rates	3.7% - 5.49%	24,950	26,812	63,979	–	115,741	106,000	9.79%-13.57%	14,000	34,384	102,574	10,979	161,937	120,000
Entrusted loans from immediate parent company	5% - 7.47%	4,641	79,547	–	–	84,188	78,000	5%-7.47%	–	82,641	–	–	82,641	78,000
		60,255	106,359	63,979	–	230,593	214,000		14,000	117,025	102,574	10,979	244,578	198,000

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 bank borrowings and entrusted loan from the immediate parent company which are at variable interest rate.

At 31 December 2009, it is estimated that a general increase/decrease of 1% basis point in interest rates, with all other variables held constant, would increase/decrease the Group's loss after tax and accumulated losses by approximately RMB2,140,000 (2008: RMB1,980,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period 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 reporting period. The analysis is performed on the same basis for 2008.

d) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group's functional currency is Renminbi as substantially all the turnover are 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 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 2009, 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:

Related party transactions with the immediate parent company

Name of related parties	Relationship	Nature of transactions	Note	2009 RMB'000	2008 RMB'000	Outstanding balance 2009 RMB'000	Outstanding balance 2008 RMB'000
Neptunus Bio-engineering	Immediate parent company	Entrusted loans from immediate parent company	(i)	**78,000**	78,000	**78,000**	78,000
		Accrued interest for the entrusted loan		**3,902**	5,396	**3,902**	5,396
		Non interest bearing financial assistance		**52,975**	9,680	**52,975**	9,680

Notes:

Entrusted loans from the immediate parent company

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 to extend the repayment date of the above three entrusted loans for at least one year or no earlier than the date of the 15th working day after the completion of the placing of new H share by the Company (whichever is earlier).

On 18 March 2010, the immediate parent company agreed that the repayment dates of the entrusted loans in the amount of RMB39,000,000, RMB9,000,000 and RMB30,000,000 were extended to 5 April 2011, 5 April 2011 and 26 March 2011 respectively.

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Related party transactions with fellow subsidiaries

Name of related parties	Relationship	Nature of transactions	Note	2009 RMB'000	2008 RMB'000	Outstanding balance 2009 RMB'000	Outstanding balance 2008 RMB'000
Neptunus Pharmaceutical	Fellow subsidiary	Rental of factory premises	(ii) (iii)	**–**	120	**–**	–
		Reimbursement for the use of plant and machinery	(ii) (iv)	**448**	778	**–**	–
		Reimbursement of direct labour costs	(ii) (v)	**180**	312	**–**	–
		Reimbursement of water, electricity and fuel costs	(ii) (vi)	**435**	422	**214**	–
		Management fees	(ii) (vii)	**10**	10	**–**	–
		Property management fees	(ii) (viii)	**60**	60	**–**	–
		R & D service income	(ii)(ix)	**502**	–	**–**	–
Shandong Neptunus Yinhe Pharmaceutical Co. Ltd ("Shandong Neptunus")	Fellow subsidiary	Sales of influenza vaccine	(ii) (x)	**–**	850	**–**	850
Shenzhen Neptunus Tongai Pharmaceutical Co. Ltd ("Tongai Pharmaceutical")		Rental of office and factory premises	(ii) (xi)	**268**	–	**268**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Related party transactions with fellow subsidiaries (continued)

Notes:

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 a 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. As the Company suspended its cytokines business on 16 March 2009, the property lease contract was terminated on the same date. The rental of RMB120,840 attributable to 2009 was waived by Neptunus Pharmaceutical.

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 R & D service income was charged at pre-agreed rates.

x) 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Related party transactions with jointly controlled entity

Name of related parties	Relationship	Nature of transactions	Note	2009 RMB'000	2008 RMB'000	Outstanding balance 2009 RMB'000	Outstanding balance 2008 RMB'000
GSK-Neptunus	A jointly controlled entity	R & D service income	(xii)	**1,580**	–	**1,580**	–
		Rental of plant and equipment	(xiii)	**–**	–	**–**	–

Notes:

xii) The R&D service income was charged at pre-agreed rates.

xiii) During the year, the Company borrowed some plant and equipment from GSK-Neptunus for its operation. GSK-Neptunus agreed that the rental of these plant and equipment is free of charge, and no rental agreement was signed by both parties.

Related party transactions with related party

Name of related parties	Relationship	Nature of transactions	Note	2009 RMB'000	2008 RMB'000	Outstanding balance 2009 RMB'000	Outstanding balance 2008 RMB'000
GlaxoSmithKline (China) Investment Co., Ltd ("GSK China")	Related company	Management services fees	(xiv)	**225**	–	**225**	–

Notes:

xiv) GSK China is a fellow subsidiary of the other venturer of the jointly controlled entity. The management service fees were charged to GSK-Neptunus at pre-agreed rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Guarantees

xv) During the year, Neptunus Bio-engineering provided a corporate guarantee to the extent of RMB106,000,000 (2008: RMB120,000,000) for the bank loan granted to the Group (note 22).

xvi) During the year, Neptunus Bio-engineering pledged its 639,000,000 domestic shares of the Company and Mr. Chai Xiang Dong, an executive director of the Company, pledged his 47,671,000 domestic shares of the Company to secure the Group's bank loan of RMB106,000,000 (2008: RMB120,000,000) (note 22).

xvii) During the year, Neptunus Bio-engineering and Neptunus Pharmaceutical provided guarantee and pledged their respective properties as security for the bank loan of the Company. (note 22)

xviii) No change was imposed by the providers of the guarantees for the guarantees issued.

c) Financing arrangements

	Amounts owed to related parties		Related interest Expenses	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Entrusted loans from the immediate parent company	**78,000**	78,000	**3,902**	3,954

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

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

c) Financing arrangements (continued)

The immediate parent company of the Group agreed to provide the following credit facilities to the Group:

i) 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 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 of the Company and SDB, under which the immediate parent company and the fellow subsidiary provided guarantee and pledged their respective properties as security for the credit facilities. SDB granted a credit facilities of RMB40,000,000 to the immediate parent company, and the immediate parent company transferred RMB30,000,000 of the credit facilities for the use of the Company. The Company drew down a short term loan of RMB30,000,000 from SDB in June 2009. The Company has not pledged any of its assets to SDB, the immediate parent company or the fellow subsidiary as security for the short term loan. On 2 March 2010, the immediate parent company agreed to extend the term of the Consolidated Credit Facilities Agreement for at least one year or no earlier than the date of the 15th working day after the completion of the Group's fund raising, if any, to be made in future (whichever is the earlier).

ii) In addition to (i) above, the immediate parent company indicated its intention, to provide further stand by facilities of RMB30,000,000 to the Group when required. In March 2010, the Company drew down RMB2,000,000 from the facilities.

iii) The existing three entrusted loans with a total amount of RMB78,000,000 (2008: RMB78,000,000) were outstanding as at end of the reporting period. On 18 March 2010, the repayment dates of the entrusted loans in the amount of RMB48,000,000 and RMB30,000,000 were extended to 5 April 2011 and 26 March 2011 respectively.

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

d) Outstanding balances with related parties

	The Group			
	Amounts owed by related parties As at 31 December		Amounts owed to related parties As at 31 December	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Entrusted loans from the immediate parent company	**—**	—	**78,000**	78,000
Amount due to the immediate parent company	**—**	—	**71,953**	15,076
Amount due from/to fellow subsidiaries:				
Neptunus Pharmaceutical	**—**	417	**214**	—
Tongai Pharmaceutical	**—**	—	**268**	—
Shandong Neptunus	**—**	850	**—**	—
	—	1,267	**482**	—
Amount due from a jointly controlled entity:				
GSK-Neptunus	**1,063**	—	**—**	—
Amount due from the other venturer of jointly controlled entity:				
GSK	**71,712**	—	**—**	—
Amount due from/to related companies:				
Shenzhen Nepstar Pharmaceutical Co. Ltd.	**10**	10	**—**	—
GSK China	**—**	—	**1,105**	—
Amount due from a director:				
Chai Xiang Dong	**44**	—	**—**	—
	72,829	1,277	**151,540**	93,076

The maximum balance outstanding of the amount due from a director was RMB 44,000 (2008: RMB: Nil) during the year.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

d) Outstanding balances with related parties (continued)

	The Company			
	Amounts owed by related parties As at 31 December		Amounts owed to related parties As at 31 December	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Entrusted loans from the immediate parent company	—	—	**78,000**	78,000
Amount due to the immediate parent company:				
Neptunus Bio-engineering	**—**	—	**71,953**	15,076
Amount due from a subsidiary:				
Ascendent Bio-technology Company Limited	**—**	11	**—**	—
Amount due from/to fellow subsidiaries:				
Neptunus Pharmaceutical	**—**	417	**214**	—
Tongai Pharmaceutical	**—**	—	**268**	—
Shandong Neptunus	**—**	850	**—**	—
	—	1,267	**482**	—
Amount due from a jointly controlled entity:				
GSK-Neptunus	**2,659**	—		—
Amount due from a related company:				
Nepstar Pharmaceutical	**10**	10	**—**	—
Amount due from a director:				
Chai Xiang Dong	**44**	—	**—**	—
	2,713	1,288	**150,435**	93,076

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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:

	2009	2008
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**2,062**	1,933
Retirement scheme contributions	**73**	49
	2,135	1,982

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

31. COMMITMENTS

a) Capital commitments outstanding at 31 December 2009 authorized and not provided for in the financial statements were as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Property, plant and equipment				
Contracted for, but not provided for:				
Property, plant and equipment	**32,711**	5,633	**26**	5,633
Land lease payments, net of deposits *	**5,500**	5,500	**5,500**	5,500
Others	**160**	160	**160**	160
	38,371	11,293	**5,686**	11,293
Authorised, but not contracted for:				
Plant and equipment	**—**	—	**—**	—
	38,371	11,293	**5,686**	11,293
Intangible assets				
Contracted for, but not provided for:				
Technical know-how, net of deposits	**8,927**	8,927	**8,927**	8,927
	47,298	20,220	**14,613**	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 to the Company basic facilities including water and electricity supply for a piece of land in Guangming Hi-Tech Industrial Park of Shenzhen 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.

31. COMMITMENTS (continued)

b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**42**	438	**42**	438
After 1 year but within 5 years	**—**	—	**—**	—
	42	438	**42**	438

The Group leases office premises under operating leases arrangements. Leases for the office premises are negotiated for terms of one year.

32. IMMEDIATE AND ULTIMATE CONTROLLING PARENT COMPANY

At 31 December 2009, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 end of the reporting period, 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 the end of each reporting period. 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 the 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(f). 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

33. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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 end of the reporting period. 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.

Going concern

The Group has substantial borrowings (see notes 22 and 24) as at the year-end date and depends on external credit facilities providers and the immediate parent company to continue extending their loans and credit guarantees and extend further loans and provide further credit guarantees if required to the Group for its operations.

These external credit facilities providers are assessed by credit rating organizations to be of high credit rating and the management estimates that the credit facilities will be extended upon maturity and new facilities will be made available to the Group when required.

Should the economic environment or market conditions in the environment in which these credit facilities providers changed and their financial position or operating strategies affected adversely, the credit facilities extended to be and the guarantees provided in favour of the Group may have to be terminated and withdrawn and the loans are required to be repaid immediately. This may have an adverse significant consequential effect on the Group's existence as a going concern.

As mentioned in note 1(b) to the financial statements, the directors are satisfied that the Group 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 Group 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 reduce the carrying amount of its assets to their net realizable amounts, reclassify non-current assets and liabilities to current assets and liabilities, and 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 Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

34. SUBSEQUENT EVENTS

The immediate parent company of the Group agreed to provide the following credit facilities to the Group:

i) 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 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 of the Company and SDB, under which the immediate parent company and the fellow subsidiary provided guarantee and pledged their respective properties as security for the credit facilities. SDB granted a credit facilities of RMB40,000,000 to the immediate parent company, and the immediate parent company transferred RMB30,000,000 of the credit facilities for the use of the Company. The Company drew down a short term loan of RMB30,000,000 from SDB in June 2009. The Company has not pledged any of its assets to SDB, the immediate parent company or the fellow subsidiary as security for the short term loan. On 2 March 2010, the immediate parent company agreed to extend the term of the Consolidated Credit Facilities Agreement for at least one year or no earlier than the date of the 15th working day after the completion of the Group's fund raising, if any, to be made in future (whichever is the earlier).

ii) In addition to (i) above, the immediate parent company indicated its intention, to provide further stand by facilities of RMB30,000,000 to the Group when required. In March 2010, the Company drew down RMB2,000,000 from the facilities.

iii) The existing three entrusted loans with a total amount of RMB78,000,000 (2008: RMB78,000,000) were outstanding as at end of the reporting period. On 18 March 2010, the repayment dates of the entrusted loans in the amount of RMB48,000,000 and RMB30,000,000 were extended to 5 April 2011 and 26 March 2011 respectively.

iv) On 2 February 2010, GSK made a cash contribution of USD3,690,000 (approximately RMB 25,092,000) to the GSK-Neptunus.

35. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these development and disclosed in note 2.

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 July 2010
7 Effective for annual periods beginning on or after 1 January 2013

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.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land at revalued amount.

The Group is in the process of making an assessment of what impact of these amendments is expected to be in the period of initial application.

Except for the above, so far it has concluded the adoption of them will have no material impact on the consolidated financial statements.

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				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
TURNOVER	**3,696**	16,310	16,160	20,181	49,383
Cost of sales	**(2,719)**	(7,477)	(5,103)	(7,697)	(7,708)
Gross profit	**977**	8,833	11,057	12,484	41,675
Other revenue	**947**	2,650	3,347	1,606	702
Other net income	**6,109**	—	—	—	—
Selling and distribution costs	**(1,157)**	(3,242)	(3,897)	(11,002)	(27,749)
Administrative expenses	**(25,166)**	(13,047)	(17,088)	(12,514)	(5,730)
Other operating expenses	**(7,523)**	(20,234)	(12,270)	(13,494)	(6,788)
(Loss)/profit from operations	**(25,813)**	(25,040)	(18,851)	(22,920)	2,110
Finance costs	**(11,663)**	(5,831)	(2,541)	(3,018)	(1,168)
(LOSS)/PROFIT BEFORE TAXATION	**(37,476)**	(30,871)	(21,392)	(25,938)	942
Income Tax	**—**	276	225	(29)	(1,102)
LOSS FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(37,476)**	(30,595)	(21,167)	(25,967)	(160)
ASSETS AND LIABILITIES					
TOTAL ASSETS	**343,426**	299,128	325,794	277,354	228,530
TOTAL LIABILITIES	**(310,075)**	(228,266)	(224,337)	(154,730)	(79,939)
	33,351	70,862	101,457	122,624	148,591

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	60