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

INTERIM REPORT 2010

* For identification purpose only

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

INTERIM RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to present the unaudited consolidated results of the Company and its subsidiary, Ascendent Bio-Technology Company Limited and its jointly controlled entity, Shenzhen GSK-Neptunus Biologicals Co., Ltd. ("GSK-Neptunus") (collectively the "Group") for the six months ended 30 June 2010 (the "Relevant Period"), together with the unaudited comparative figures for the corresponding period of 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2010

		For the three months ended 30 June		For the six months ended 30 June	
		2010	2009	**2010**	2009
		(Unaudited)		**(Unaudited)**	
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
TURNOVER	4	**325**	38	**1,088**	2,805
Cost of sales		**(250)**	(108)	**(859)**	(1,803)
Gross profit/(loss)		**75**	(70)	**229**	1,002
Other revenue	4	**3,696**	188	**4,757**	317
Selling and distribution expenses		**—**	(401)	**—**	(1,458)
Administrative expenses		**(7,502)**	(4,214)	**(12,845)**	(6,705)
Other operating expenses		**(1,387)**	(1,552)	**(2,452)**	(1,768)
LOSS FROM OPERATIONS		**(5,118)**	(6,049)	**(10,311)**	(8,612)
Finance costs	6	**(3,894)**	(3,781)	**(7,720)**	(6,307)
LOSS BEFORE TAXATION	5	**(9,012)**	(9,830)	**(18,031)**	(14,919)
Income tax	7	**—**	—	**—**	—
LOSS FOR THE PERIOD					
Attributable to:					
Owner of the Company		**(9,012)**	(9,830)	**(18,031)**	(14,919)
LOSS PER SHARE					
Basic	9	**RMB(0.95) cents**	RMB(1.04) cents	**RMB(1.91) cents**	RMB(1.58) cents
Diluted	9	**RMB(0.95) cents**	RMB(1.04) cents	**RMB(1.91) cents**	RMB(1.58) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 30 June 2010

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	**2010**	2009
	(Unaudited)		**(Unaudited)**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
Loss for the period	**(9,012)**	(9,830)	**(18,031)**	(14,919)
Other comprehensive income for the period				
Exchange difference on translation of financial statements of a jointly controlled entity	**—**	—	**(30)**	—
Total other comprehensive income for the period, net of tax	**—**	—	**(30)**	—
Total comprehensive income for the period	**(9,012)**	(9,830)	**(18,061)**	(14,919)
Attributable to:				
Owner of the Company	**(9,012)**	(9,830)	**(18,061)**	(14,919)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2010

	Note	**As at 30 June 2010 (Unaudited) RMB'000**	As at 31 December 2009 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**204,944**	185,044
Interest in leasehold land held for own use under operating lease		**20,635**	22,986
Intangible assets		**95**	79
Deposit for acquisition of property, plant and equipment		**27,082**	5,707
Deferred tax assets		**726**	726
		253,482	214,542
CURRENT ASSETS			
Inventories		**18**	117
Trade and other receivables	11	**75,496**	73,406
Cash and cash equivalents		**14,812**	55,361
		90,326	128,884
CURRENT LIABILITIES			
Trade and other payables	12	**132,924**	87,914
Interest-bearing bank borrowings	13	**22,000**	50,000
Tax payable		**2,342**	2,342
		(157,266)	(140,256)
NET CURRENT LIABILITIES		**(66,940)**	(11,372)
TOTAL ASSETS LESS CURRENT LIABILITIES		**186,542**	203,170
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	13	**74,000**	86,000
Entrusted loans from immediate parent company		**78,000**	78,000
Deferred revenue		**19,252**	5,819
		(171,252)	(169,819)
NET ASSETS		**15,290**	33,351
CAPITAL AND RESERVES			
Share capital		**94,667**	94,667
Reserves		**(79,377)**	(61,316)
TOTAL EQUITY		**15,290**	33,351

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2010

	Issued share capital RMB'000	Share premium RMB'000	Statutory reserve fund RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	94,667	41,923	3,330	—	(69,058)	70,862
Comprehensive income						
Loss for the period	—	—	—	—	(14,919)	(14,919)
Total comprehensive income for the period	—	—	—	—	(14,919)	(14,919)
At 30 June 2009	94,667	41,923	3,330	—	(83,977)	55,943
At 1 January 2010	94,667	41,923	3,330	(35)	(106,534)	33,351
Comprehensive income						
Loss for the period	—	—	—	—	(18,031)	(18,031)
Other comprehensive income						
Exchange difference on translation of financial statements of a jointly controlled entity	—	—	—	(30)	—	(30)
Total comprehensive income for the period	—	—	—	(30)	(18,031)	(18,061)
At 30 June 2010	**94,667**	**41,923**	**3,330**	**(65)**	**(124,565)**	**15,290**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	
	RMB'000	RMB'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**28,037**	14,608
NET CASH USED IN INVESTING ACTIVITIES	**(24,788)**	(32,932)
NET CASH (USED IN)/GENERATED FORM FINANCING ACTIVITIES	**(43,798)**	16,693
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(40,549)**	(1,631)
Cash and cash equivalents at the beginning of period	**55,361**	3,773
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**14,812**	2,142
ANALYSES OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**14,812**	2,142

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

2. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with the applicable disclosure provision of the GEM Listing Rules on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

The unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2009, except for the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs"). The condensed consolidated financial statements do not include all the information and disclosures required for an annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2009.

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the curret accounting period of the Company. There have been no significant changes to the accounting policy applied in these financial statements for the periods as a result of the developments.

This unaudited condensed consolidated interim financial information for the period ended 30 June 2010 comprise the Company, its subsidiary and the Group's interest in a jointly contolled 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.

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:

(i) Financial support by the immediate parent company;

The immediate parent company indicated its intention, to provide further standby facilities of RMB30,000,000 to the Group when required. As at 30 June 2010, the Company drew down at a total amount of RMB15,500,000 from the facilities. Starting from this year, such financial assistance become interest bearing on the basis of one year loan interest rate which is benchmark interest rate announced by the People's Bank of China for the corresponding period.

The existing three entrusted loans with a total amount of RMB78,000,000 (2009: RMB78,000,000) were outstanding as at the 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.

(ii) Government grant for research and development;

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

(iii) Partial disposal of equity interest in its jointly controlled entity, 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. During the relevant Period, the Company carried out relevant work with GSK in respect of the transfer of 9% equity interests in GSK-Neptunus. The Company estimates that the procedures for the alteration of business registration will be competed in August 2010. The consideration for the transfer of 9% equity interests GSK-Neptunus's equal to 150% of the original value of such equity interests, namely USD10,574,550. This consideration is expected to be received by the Company after the completion of the alteration procedures of business registration and upon the receipt of the approval granted by relevant foreign exchange administration department. The completion of the transfer of such equity interests will have positive impact on the third quarterly result of the Company.

(iv) Placing and issue of new H shares.

The Company has obtained the written approval from 中國證券監督管理委員會 (China Securities Regulatory Commission) for the issue and allotment of not more than 189,334,000 new H shares of RMB0.1 each proposed to be issued by the Company under the H share placing. Subject to the signing of a placing agreement for the H share placing and the approval of the Stock Exchange for the listing of and dealings in the placing shares on GEM, the Board will implement the H share placing as soon as practicable.

(v) Acquisition of 80% equity interest in Fuzhou Neptunus Fuyao Pharmaceutical Company Limited ("Neptunus Fuyao")

On 16 July 2010, the Company, Neptunus Bio-engineering and Neptunus Pharmaceutical entered into conditional sale and purchase agreement 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 at conditionally agreed to sell the equity interest at a consideration of RMB433,600,000. If the proposed acquisition are proceeded by the parties, it will bring additional cash inflow and profits to the Company.

(vi) Enhancement of the profitability of the Company

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.

3. Segment reporting

The Group manages its businesses by divisions which are organised by a mixture of both business lines (products and services) and geography. 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.

(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 period is set out below.

For the six months ended 30 June	Manufacturing and selling medicine products		R&D service		Total	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**—**	2,303	**1,088**	502	**1,088**	2,805
Inter-segment revenue	**—**	—	**790**	—	**790**	—
Reportable segment revenue	**—**	2,303	**1,878**	502	**1,878**	2,805
Reportable segment (loss)/profit (adjusted EBITDA)	**(7,410)**	(5,781)	**(750)**	83	**(8,160)**	(5,698)
Interest income from bank deposit	**62**	6	**—**	—	**62**	6
Interest expenses	**7,720**	6,307	**—**	—	**7,720**	6,307
Depreciation and amortisation						
– Property, plant and equipment	**2,347**	1,657	**1,228**	149	**3,575**	1,806
– Prepaid lease payment	**246**	128	**—**	—	**246**	128
– Intangible assets	**21**	980	**—**	—	**21**	980
Reportable segment assets	**327,092**	341,605	**16,619**	3,000	**343,711**	344,605
Additions to fixed assets (i.e. non-current assets other than financial assets and deferred tax assets) during the period	**21,438**	11,051	**—**	—	**21,438**	11,051
Reportable segment liabilities	**326,805**	309,638	**—**	—	**326,805**	309,638

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**1,878**	2,805
Elimination of inter-segment revenue	**(790)**	—
Consolidated turnover	**1,088**	2,805

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Loss		
Reportable segment loss	**(8,160)**	(5,698)
Elimination of inter-segment profit	**—**	—
Reportable segment loss derived from the Group's external customers	**(8,160)**	(5,698)
Other revenue	**4,757**	317
Depreciation and amortisaton	**(3,842)**	(2,914)
Finance cost	**(7,720)**	(6,307)
Unallocated head office and corporate expense	**(3,066)**	(317)
Consolidated loss before taxation	**(18,031)**	(14,919)

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'00
Assets		
Reportable segment assets	**343,711**	344,605
Elimination of inter-segment receivables	**(629)**	(1,905)
	343,082	342,700
Unallocated head office and corporate assets	**—**	—
Deferred tax assets	**726**	726
Consolidated total assets	**343,808**	343,426
Liabilities		
Reportable segment liabilities	**326,805**	309,638
Elimination of inter-segment payables	**(629)**	(1,905)
	326,176	307,733
Current tax liabilities	**2,342**	2,342
Unallocated head office and corporate liabilities	**—**	—
Consolidated total liabilities	**328,518**	310,075

4. Turnover and other revenue

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

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	**2010**	2009
	(Unaudited)		**(Unaudited)**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
Turnover				
Sale of medicines	**—**	38	**—**	2,303
R&D service income	**325**	—	**1,088**	502
	325	38	**1,088**	2,805
Other revenue				
Interest income on bank deposits	**35**	3	**62**	6
Government subsidy	**3,560**	76	**4,566**	181
Reversal of impairment allowance on trade receivable	**—**	108	**—**	108
Reversal of impairment loss on inventories	**101**	—	**111**	—
Others	**—**	1	**18**	22
	3,696	188	**4,757**	317

5. Loss before taxation

Loss before taxation is arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	**2010**	2009
	(Unaudited)		**(Unaudited)**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
(a) Staff costs				
Salaries, wages and other benefits (including directors' emoluments)	**2,424**	1,551	**5,006**	3,078
Contributions to defined contribution retirement plan	**157**	54	**284**	113
	2,581	1,605	**5,290**	3,191
(b) Other Items				
Cost of sales	**250**	108	**859**	1,803
Amortisation of interest in leasehold land held for own use under operating lease	**124**	83	**246**	128
Depreciation	**1,830**	610	**3,575**	1,806
Amortisation of intangible assets*	**11**	644	**21**	980
R&D costs*	**1,234**	847	**2,288**	847
Auditor's remuneration				
– audit services	**180**	178	**180**	178
– other services	**695**	—	**695**	—
Loss on disposal of property, plant and equipment	**—**	—	**—**	9

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

6. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	**2010**	2009
	(Unaudited)		**(Unaudited)**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest on bank advances wholly repayable within five years	**1,716**	1,836	**3,688**	3,618
Interest on entrusted loans from the immediate parent company	**1,045**	1,945	**2,078**	2,689
Interest on financial assistance from the immediate parent company	**1,133**	—	**1,954**	—
	3,894	3,781	**7,720**	6,307

7. Income tax

Hong Kong profits tax has not been provided for as the Group had no income assessable to Hong Kong profit tax during the Relevant Period.

The PRC enterprise income tax (the "EIT") for the Relevant Period is 25%. The EIT has not been provided for as the Group has no assessable income for the Relevant Period.

On 16 March 2007, the PRC government promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and Implementation Regulation has changed tax rates from 33% to 25% from 1 January 2008.

8. Dividends

The Board does not recommend the payment of any dividend for the Relevant Period (2009: Nil).

9. Loss per share

For the three-month and six-month periods ended 30 June 2010, the calculation of basic loss per share was based on the loss attributable to equity shareholders of approximately RMB9,012,000 and RMB18,031,000 respectively (three-month and six-month periods ended 30 June 2009: loss of RMB9,830,000 and loss of RMB14,919,000 respectively) and 946,670,000 ordinary shares in issue for the three-month and six-month periods ended 30 June 2010 (2009: 946,670,000 ordinary shares).

Diluted earnings per share for the three-month and six-month periods ended 30 June 2010 and 2009 equals to basic loss per share because there were no potential dilutive ordinary shares outstanding during these periods.

10. Property, plant and equipment

During the Relevant Period, property, plant and equipment purchased by the Company were approximately RMB21,438,000 (2009: RMB11,051,000).

11. Trade and other receivables

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

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 3 months	**—**	—
More than 3 months but less than 12 months	**—**	—
Over 12 months	**308**	308
	308	308
Less: allowance for doubtful debts	**(308)**	(308)
Trade receivable, net	**—**	—
Amount due from a related company	**56,310**	71,722
Amount due from a jointly controlled entity	**205**	1,063
Amount due from a director	**44**	44
Other receivables	**18,272**	125
Loan and receivables	**74,831**	72,954
Prepayment and deposits	**665**	452
	75,496	73,406

12. Trade and other payables

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

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 3 months	**—**	—
4 to 6 months	**—**	—
7 to 12 months	**—**	—
Over 1 year	**667**	693
Trade payable	**667**	693
Amount due to a related company	**2,176**	1,105
Amount due to fellow subsidiaries	**582**	482
Amount due to immediate parent company	**13,330**	71,953
Interest bearing financial assistance from immediate parent company	**108,155**	—
Other payable	**8,014**	13,681
Financial liabilities measured at amortised cost	**132,924**	87,914

13. Interest-bearing bank borrowings

		Effective interest rate	Maturity	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Current portion of:					
Short-term bank loan – secured	(a)	5.31%	2010	—	30,000
Long-term bank loan – secured	(b)	3.76-5.49%	2014	22,000	20,000
Non-current portion of:					
Long-term bank loan – secured	(b)	3.76-5.49%	2014	74,000	86,000
				96,000	136,000

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Interest-bearing bank borrowings repayable:		
Within one year or on demand	22,000	50,000
After 1 year but within 2 years	25,000	24,000
After 2 years but within 5 years	49,000	62,000
After five years	—	—
	74,000	86,000
	96,000	136,000

Note:

(a) In 2009, 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's short-term bank loan of RMB30,000,000 granted by Longgang Sub-branch of Shenzhen Development Bank Co., Ltd. ("SDB"). The Company didn't pledge any assets of the Company to Neptunus Bio-engineering or Neptunus Pharmaceutical for such financial assistance. On 3 June 2010, the Company repaid all principal and interest thereon of the short-term bank loan from SDB.

(b) The Group's long-term bank loan of RMB96,000,000 (2009: RMB106,000,000) granted by China Development Bank ("CDB") was secured by follows:

(i) mortgages over the Group's interest in leasehold land held for own use under operating leases situated in the PRC.

(ii) mortgages over the Group's buildings, equipment and construction-in-progress.

(iii) the pledge of 639,000,000 domestic shares of the Company held by Neptunus Bio-engineering, the immediate parent company (note 15(c));

(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 15(c)); and

(v) the pledge of the right to receive the 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.

In addition, the Company's immediate parent company and Neptunus Group has given corporate guarantee for the above bank loan.

14. Commitments

(a) Capital commitments outstanding at 30 June 2010 authorized and not provided for in the financial statements were as follows:

	The Group and the Company	
	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Property, plant and equipment		
Contracted for, but not provided for:		
Property, plant and equipment	**31,552**	32,711
Land lease payments, net of deposits*	**5,500**	5,500
Others	**160**	160
	37,212	38,371
Authorised but not contracted for:		
Property, plant and equipment	**23,330**	—
	60,542	38,371
Intangible assets		
Contracted for, but not provided for:		
Technical know-how, net of deposits	**8,927**	8,927
	69,469	47,298

* The Company entered into a contract with Baoan Development Company, an independent third party, on 17 September 2004 (with a supplemental agreement dated on the same date), pursuant to which Baoan Development Company agreed to provide the Company with the basic facilities including water and electricity supply for a piece of land in Guangming Hi-Tech Industrial Park of Shenzhen acquired by the Company, in return for a park development integrated fee (the "PDI fee") of RMB6,000,000 to be paid by the Company.

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

(b) At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 1 year	**383**	42
After 1 year but within 5 years	**402**	—
	785	42

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

15. Material related party transactions

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

Name of related parties	Relationship	Nature of transactions	*Note*	For the six months ended 30 June 2010 (Unaudited) RMB'000	2009 RMB'000
Neptunus Bio-engineering	Immediate parent company	Entrusted loans from immediate parent company	(i)	**78,000**	78,000
		Accrued interest for entrusted loans	(i)	**2,078**	2,689
		Non interest-bearing financial assistance	(ii)	**—**	17,475
		Interest-bearing financial assistance from immediate parent company	(ii)	**108,155**	—
		Accrued interest for interest-bearing financial assistance	(ii)	**1,954**	—
Neptunus Pharmaceutical	Fellow subsidiary	Rental of factory premises	(iii)	**—**	60
		Reimbursement for the use of plant and machinery	(iv)	**—**	2
		Reimbursement of direct labour costs	(v)	**—**	2
		Reimbursement of water, electricity and fuel costs	(vi)	**431**	—
		Management fees	(vii)	**5**	—
		Property management fees	(viii)	**30**	1
		R&D service income	(ix)	**600**	502
Shenzhen Neptunus Tongai Pharmaceutical Company Limited ("Tongai Pharmaceutical")	Fellow subsidiary	Rental of office and factory premises	(x)	**134**	134

Notes:

a) The ultimate controlling parent company of these related parties is also the ultimate controlling parent company of the Group. The director of the Company, Mr. Zhang Si Min, is also the director of these related parties.

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 form 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.

ii) Financial assistance from Neptunus Bio-engineering, the Company's immediate parent company, was interest free in previous years and the Group did not pledge its assets as security for such financial assistance. Financial assistance from Neptunus Bio-engineering became interest bearing at 5.31% interest rate per annum which is the benchmark interest rate announced by the People's Bank of China starting from this period.

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

iv) The reimbursement on the use of plant and machinery was based on pre-agreed rates with reference to the useful lives of the plant and machinery and the estimated utilisation 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 rental of office and factory was charged at pre-agreed rates with reference to market prices.

b) During the Relevant Period, Neptunus Bio-engineering provided a corporate guarantee to the extent of RMB96,000,000 (2009: RMB106,000,000) for the banking facility granted to the Group. (note 13).

c) During the Relevant Period, Neptunus Bio-engineering pledged its 639,000,000 domestic shares in the Company and Mr. Chai Xiang Dong, the director and shareholder of the Company, pledged his 47,671,000 domestic shares in the Company to secure the Group's bank loan amounted to RMB96,000,000 (2009: RMB106,000,000) (note 13).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Relevant Period, the Group was principally engaged in the R&D of modern biological technology (the "R&D Business"). During the year 2009, the Group has suspended the production and sales of cytokine therapeutic drugs (the "Cytokines Business"), including recombinant human interferonα2b for injection and recombinant human interleukin-2 for injection (125Ser) (the "Cytokines Products"). Consequently, during the Relevant Period, the Group also engaged in the development of the R&D Business and strived to establish the joint venture company with GSK in order to introduce advanced international production and quality management system and product quality standards for influenza vaccines to further develop its influenza vaccines business. The Group also proactively negotiated with Neptunus Bio-engineering and Neptunus Pharmaceutical in respect of their respective 75% and 5% equity interests in Fuzhou Neptunus Fuyao Pharmaceutical Company Limited ("Neptunus Fuyao").

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 interests 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 interests in GSK-Neptunus.

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 30 June 2010, GSK-Neptunus has received total paid-in capital of US$64,510,000 (approximately HK$499,952,500), accounting for 82.35% of total registered capital. The Company has fulfilled contribution obligations under the JV Contract and the total contributions by GSK was US$ 17,510,000(approximately HK$135,702,500) in cash.

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 Relevant Period, the Company provided R&D services for the influenza vaccine products of GSK-Neptunus. 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, which is planned to be completed in the middle of 2010. During the relevant Period, the Company carried out relevant work with GSK in respect of the transfer of 9% equity interests in GSK-Neptunus. The Company estimates that the procedures for the alteration of business registration will be completed in August 2010. The consideration for the transfer of 9% equity interests in GSK-Neptunus is equal to 150% of the original value of such equity interests, namely USD10,574,550. This consideration is expected to be received by the Company after the completion of the alteration procedures of business registration and upon the receipt of the approval granted by relevant foreign exchange administration department. The completion of the transfer of such equity interests will have positive impact on the third quarterly result of the Company.

Acquisition of Neptunus Fuyao

On 2 March 2009, the Company entered into a non-legally binding letter of intent ("Letter of Intent") with Shenzhen 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 2009, the parties hereto had decided to postpone the negotiation about the said acquisition and sale under the Letter of Intent. During the Relevant Period, the company proactively negotiated with Neptunus Bio-engineering and Neptunus Pharmaceutical in respect of their respective 75% and 5% equity interests in Neptunus Fuyao.

Subsequent to this reporting period, the Company, Neptunus Bio-engineering and Neptunus Pharmaceutical entered into the Equity Transfer Agreement in respect of the acquisition (the "Proposed Acquisition") of 80% (the "Equity Interest") of the registered capital of Neptunus Fuyao on 16 July 2010, pursuant to which the Company conditionally agreed to purchase and Neptunus Bio-engineering and Neptunus Pharmaceutical conditionally agreed to sell the Equity Interest at a consideration of RMB433,600,000, which shall be fully settled by the issue of 542,000,000 consideration shares to Neptunus Bio-engineering at RMB0.8 per consideration share within 60 days after the completion of the Proposed Acquisition and upon the completion of certain procedures relating to the issue and allotment of the domestic shares under the PRC laws.

CYTOKINES BUSINESS

During the year 2009, the Company suspended the Cytokines Business, including the production and sales of the Cytokines Products. In view of the smooth progress on influenza vaccine and the Proposed Acquisition, the Company plans to either(i) dispose of its Cytokines Business; or (ii) revitalize its Cytokines Business by expanding the categories of its cytokines products. During the Relevant Period, the Company expected to seek new opportunities to expand the categories of its cytokines products in order to revitalize the Cytokines Business. Subsequent to this reporting period, the Company negotiated with Neptunus Pharmaceutical in respect of the corporation on jointly carrying out the Cytokines Business.

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 Bio-engineering and its subsidiaries. After the suspension of the Cytokines Business, the R&D Business has remained the main source of revenue for the Company and generated a revenue of approximately RMB1,922,000 for the Company during the Relevant Periods.

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 is carrying out the Proposed Acquisition. Neptunus Fuyao, together with its subsidiaries, owns 40 production lines of drugs with 17 types of dosage medicine in total, all of which have passed and obtained the GMP certification. Given the medical health system reform in China and the three focuses of "speeding up the development of basic medical system", "establishing the basic medical assurance system for the whole nation" and "providing comprehensive and basic medical and health service system", OTC market in China is developing and will continue to develop rapidly, thus the drugs developed by Neptunus Fuyao will have huge development potentials. Acquisition of Neptunus Fuyao will bring good commercial potentials to the Company. If the acquisition is successful, it will bring stable revenue and profit contributions for the Company in future years.

The Company expects to seek new opportunities for its Cytokines Business to expand the categories of its cytokines business, thus revitalizing its Cytokines Business. If the Cytokines Business can continue to develop in new areas, this will bring positive effects on the Company in the future.

The Company is conducting a placing of new H shares. During the Relevant Period, the Company has obtained the approval granted by China Securities Regulatory Commission("CSRC") in respect of its issue of new H shares. The Company is actively promoting the placing and it will bring positive effects on the Company's cash flows and business development if it is successful.

FINANCIAL REVIEW

The Group's turnover for the Relevant Period was approximately RMB1,088,000, representing a decrease of 61.21% from that of RMB2,805,000 in the corresponding period last year. All of turnover for the Relevant Period was derived from R&D Business. The decline in turnover during the Relevant Period was due to the fact that the Company suspended the sales of subunit influenza vaccine and the Cytokines Products.

During the Relevant Period, the Group had suspended the production and sales of related medicine products of the Company, resulting in a gross profit and gross profit margin of approximately RMB229,000 and 11.58% respectively.

Since the Group suspended the sales of medicine products during the Relevant Period, no selling and distribution expenses was incurred during the Relevant Period.

The Group's administrative expenses for the Relevant Period amounted to approximately RMB12,845,000, increasing significantly by approximately RMB6,140,000 from approximately RMB6,705,000 in the corresponding period last year and representing an increase of approximately 91.57%. The increase of administrative expenses during the Relevant Period was mainly attributable to a number of factors: (i) GSK-Neptunus was established on 6 August 2009 with additional senior management members, thus resulted in an increase of staff costs; (ii) certain of the Group's construction under progress transferred to fixed assets, thus resulted in the substantial increase of depreciation expenses; and (iii)the Company has carried out the acquisition of Neptunus Fuyao, thus resulted in the substantial increase of various intermediate fees in expenses.

The Group's other operating expenses for the Relevant Period amounted to approximately RMB2,452,000, increasing by approximately RMB684,000 compared with that of the corresponding period last year and representing a increase of approximately 38.69% .The increase was mainly attributable to the fact that the R&D expenses increased during the Relevant Period.

Finance costs of the Group for the Relevant Period amounted to approximately RMB7,720,000, representing a significant increase of approximately RMB1,413,000 as compared with approximately RMB6,307,000 for the corresponding period last year. The increase was mainly attributable to the fact that financial assistance from Neptunus Bio-engineering, the Company's immediate parent company, was interest free in previous years and starting from this year, it has became interest-bearing at one-year loan interest rate stipulated by the People's Bank of China for the corresponding period.

The Group's loss before tax for the Relevant Period increased from approximately RMB14,919,000 in the corresponding period last year to approximately RMB18,031,000. The increase in loss was mainly due to the decrease in turnover and the significant increase in administrative expenses and finance costs by the Group.

As such, loss attributable to the shareholders of the Company amounted to approximately RMB18,031,000 for the Relevant Period, compared with only RMB14,919,000 for the corresponding period last year.

LIQUIDITY AND FINANCIAL RESOURCES

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

Borrowings and banking facilities

As of 30 June 2010, the Group's borrowings approximately amounted to RMB282,155,000, of which RMB96,000,000 was long-term bank borrowing, RMB78,000,000 were the shareholder's entrusted loans from the Company's controlling shareholder Neptunus Bio-engineering, and approximately RMB108,155,000 was the interest-bearing financial assistance from Neptunus Bio-engineering.

On 23 May 2006, the Company entered into a long-term loan agreement (the "CDB Loan Agreement") with CDB for the grant by CDB of a loan of RMB130,000,000 (the "CDB Loan") to the Company to finance the Company's project on influenza vaccine (the "Loan Project"). Pursuant to the CDB Loan Agreement, CDB requires the Company, Neptunus Bio-engineering, the Company's controlling shareholder, and Mr. Chai Xiang Dong, the management shareholder of the Company, to provide guarantee and securities (including without limitation to the pledge of the domestic shares of the Company currently held by them to CDB) to secure the CDB Loan. The Company would apply the revenue from the Loan Project to repay the CDB Loan by installments. During the Relevant Period, the Company has repaid principal of RMB10,000,000 and interest of RMB3,073,000 to CDB in accordance with to the terms of the CDB Loan Agreement.

Shareholder's interest-bearing financial assistance

As at 30 June 2010, the financial assistance obtained by the Company from Neptunus Bio-engineering amounted to approximately RMB108,155,000. Such financial assistance was interest free in prior years and the Company did not pledge its assets as security for such financial assistance. Starting from this year, financial assistance from Neptunus Bio-engineering has become interest-bearing at one-year loan interest rate stipulated by the People's Bank of China for the corresponding period.

Shareholder's entrusted loans

Shareholder's entrusted loans obtained by the Company from Neptunus Bio-engineering as at 30 June 2010 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 had undertaken that the repayment date of this shareholder's entrusted loan would be postponed to 5 April 2011. However, Neptunus Bio-engineering had also undertaken to the Company that it would not demand repayment of the abovementioned shareholder's entrusted loan unless and until: (1) the repayment of such shareholder's entrusted loan would not adversely affect the operations of the Company and/or its business objectives as set out in the prospectus published by the Company dated 29 August 2005; and (2) each of the independent non-executive directors was of the opinion that the repayment of such shareholder's entrusted loan would not adversely affect the operations of the Company and/or the implementation of its business objectives as set out in the Prospectus, and the Company would make an announcement in respect of the decision of the independent non-executive directors made under (2); and (3) the Company had a positive cash flow and had retained profits in the relevant financial year.

The Company obtained another shareholder's entrusted loan of RMB39,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank. This shareholder's entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009. However, Neptunus Bio-engineering had undertaken that the repayment date of this entrusted loan would be postponed to 5 April 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 days after the completion of the placing of new H shares by the Company (whichever is earlier). Neptunus Bio-engineering also had undertaken not to require the repayment of such entrusted loan until 26 March 2011.

On 2 March 2009, Neptunus Bio-engineering also undertook to the Company that, if during 2010 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 during 2010. During the Relevant Period, Neptunus Bio-engineering provided financial assistance to the Company in a total amount of approximately RMB15,500,000.

On 15 April 2009, Neptunus Bio-engineeing entered into a Consolidated Credit Facilities Agreement (the "Facilities Agreement") with SDB. During the year 2009, 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"). The Company repaid this loan on 3 June 2010. The fund used to repay the Credit Loan were all came from the special subsidy of Neptunus Bio-engineering.

CDB LOAN AGREEMENT

Specific performance obligations by the controlling shareholder

The CDB Loan Agreement imposes specific performance obligations on the Company and Neptunus Bio-engineering as conditions precedent to the drawdown of monies by the Company under the CDB Loan. The CDB Loan Agreement requires Neptunus Bio-engineering to enter into an Agreement on Pledge of Shares with CDB and to act as a guarantor with joint liabilities for the CDB Loan and to execute a Guarantee Agreement in favour of CDB. Neptunus Bio-engineering has entered into the Agreement on Pledge of Shares and the Guarantee Agreement with CDB on 23 May 2006. The CDB Loan Agreement further requires that, during the term of the CDB Loan, such Guarantee Agreement and Agreement on Pledge of Shares shall remain valid and that Neptunus Bio-engineering will not be in breach of any provision of the CDB Loan Agreement and that regarding the financial standing and the pledged property of Neptunus Bio-engineering, no event that would prejudice the interests of CDB occurs. In addition, if Neptunus Bioengineering's ability to provide security is weakened or the value of the pledged property decreases, the CDB Loan Agreement requires the Company to provide compensatory security within a time limit set by CDB and valid security agreements should be entered into between the security providers (including but not limited to the Company and Neptunus Bio-engineering) and CDB. The CDB Loan Agreement further requires Neptunus Bio-engineering and Mr. Chai Xiang Dong to provide an undertaking letter regarding the restriction on the dividend distribution by the company. Neptunus Bio-engineering and Mr. Chai Xiang Dong have undertaken to strictly observe the conditions for distribution of dividends as provided in the CDB Loan Agreement. They have further undertaken to vote against any proposed resolution regarding the distribution of dividends in the shareholders' meeting of the Company in the event that such conditions as provided in the CDB Loan Agreement have not been satisfied.

Pledge of Shares by controlling shareholder

On 23 May 2006, Neptunus Bio-engineering entered into an Agreement on Pledge of Shares with CDB, pursuant to which Neptunus Bio-engineering pledged 639,000,000 domestic shares in the Company currently held by it (representing approximately 67.5% of the Company's issued share capital) to CDB as security for the CDB Loan. Pursuant to the Agreement on Pledge of Shares, if the Company fails to repay the CDB Loan in accordance with the terms of the CDB Loan Agreement, CDB would be entitled to sell the abovementioned pledged shares and to apply such proceeds to make up for the CDB Loan. The Company received a notice from Neptunus Bio-engineering regarding the abovementioned pledge and made an announcement on 24 May 2006 in respect of the pledge of shares by the controlling shareholder pursuant to Rule 17.19 of the GEM Listing Rules.

The aforesaid Agreement on Pledge of Shares does not require Neptunus Bio-engineering to pledge to CDB any new shares in the Company acquired by it during the term of the pledge.

Maximum Amount of Pledge Guarantee Agreement

On 15 April 2009, a Maximum Amount of Pledge Guarantee Agreement was entered into between Neptunus Bio-engineering and Neptunus Pharmaceutical and SDB, under which Neptunus Bio-engineering and Neptunus Pharmaceutical 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, a Maximum Amount of Pledge Guarantee Agreement executed by Neptunus Bio-engineering for the purpose of securing the CDB Loan and its shareholder's entrusted loans and credit facilities to the Company amount to financial assistances to the Company by a connected person, the financial assistances have been entered into on normal commercial terms (or better terms to the Company) and the Company has not provided any security over its assets to Neptunus Bio-engineering. Consequently, the above financial assistances constitute exempt connected transactions under Rule 20.65(4) of the GEM Listing Rules and are exempt from reporting, announcement and independent shareholders' approval requirements.

Pledge of Shares by management shareholder

On 23 May 2006, Mr. Chai Xiang Dong, the management shareholder of the Company, entered into an Agreement on Pledge of Shares with CDB pursuant to which Mr. Chai Xiang Dong pledged 47,671,000 domestic shares in the Company currently held by him (representing approximately 5.04% of the Company's issued share capital) to CDB as security for the CDB Loan. Pursuant to the Agreement on Pledge of Shares, if the Company fails to repay the CDB Loan in accordance with the terms of the CDB Loan Agreement, CDB would be entitled to sell the abovementioned pledged shares and to apply such proceeds to make up for the CDB Loan. The Company received a notice from Mr. Chai Xiang Dong regarding the aforesaid pledge of shares and made an announcement on 24 May 2006 in respect of the pledge of shares by management shareholder pursuant to Rule 17.43 of the GEM Listing Rules.

In addition, pursuant to the aforesaid Agreement on Pledge of Shares, if Mr. Chai Xiang Dong acquires new shares pursuant to any bonus or rights issues of shares by the Company to its shareholders during the term of the pledge, the new shares will automatically become the pledged property under the aforesaid Agreement on Pledge of Shares and Mr. Chai Xiang Dong shall within 10 days complete all procedure required to perfect the pledge of the new shares. The Company will, if required, make an announcement in respect of the aforesaid pledge of new shares in the Company by Mr. Chai Xiang Dong pursuant to Rule 17.43 of the GEM Listing Rules.

Although the Agreement on Pledge of Shares executed by Mr. Chai Xiang Dong for the purpose of securing the CDB Loan amounts to a provision of financial assistance to the Company by a connected person, the financial assistance has been entered into on normal commercial terms (or better terms to the Company) and the Company has not provided any security over its assets to Mr Chai. Consequently, the above financial assistance constitutes an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules and is exempt from reporting, announcement and independent shareholders' approval requirements.

AMENDMENT AGREEMENT FOR THE CDB LOAN AGREEMENT

In order to obtain CDB's approval for the release of charges over the land use rights, properties, plants and equipments charged in favor of CDB, on 24 February 2009, the Company, Neptunus Bio-engineering and its controlling shareholder Neptunus Group and Mr. Chai Xiang Dong entered into the Amendment Agreement for the CDB Loan Agreement (the "Amendment Agreement") with CDB. As a result of the execution of the Amendment Agreement, the Company shall open an account with CDB (the "Account") and shall deposit all future revenue generated by the Company, including but not limited to shareholder's dividends and distribution received from 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) 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.The Company has succeeded in its joint venture with GSK.

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.

Gearing ratio

As at 30 June 2010, the gearing ratio of the Group was approximately 95% (end of 2009: 83%) and was calculated by a division of the Group's total borrowings by total capital. Net debt is equivalent to total borrowings (the aggregate of interest-bearing bank borrowings, shareholder entrusted bank loans and interest-bearing borrowings) less cash and cash equivalents, total capital is equivalent to the aggregate of net debt and total equity interest.

Net current liabilities

As at 30 June 2010, the Group had net current liabilities of approximately RMB66,940,000. Current assets comprised cash and cash equivalents of approximately RMB14,812,000, amounts due from a related parties approximately RMB56,559,000, inventories of approximately RMB18,000 and, prepayments, deposits and other receivables of approximately RMB18,937,000. Current liabilities comprised trade payables of approximately RMB667,000, interest-bearing bank borrowings to be repaid within one year of approximately RMB22,000,000, amounts due to related companies of RMB124,243,000, tax payable of approximately RMB2,342,000 and other payables of approximately RMB8,014,000. There was an increase in the net current liabilities compared with 31 December 2009's net current liabilities position of approximately RMB11,372,000, due to the facts that during the Relevant Period, the Company (i) repaid a total of approximately RMB13,073,000 of principal and interests of CDB loan; (ii) acquired a total of approximately RMB21,438,000 of properties, equipment etc.

Foreign Currency Risk

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

Contingent Liability

As at 30 June 2010, the Group had no significant contingent liability.

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

As at 30 June 2010, the interests and short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the Securities and Futures Ordinance (the "SFO") (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the "required standard of dealings" by 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 1)*	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Mr. Yu Jun *(Note 2)*	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

1 Executive director and general manager of the Company

2 Supervisor of the Company and employee of the Group

Long positions in shares of associated corporations of the Company:

Director	Capacity	Type of Interests	Name of associated corporation	Number of shares held in associated corporation	Approximate percentage of 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 entire issued share capital of the Company as at 30 June 2010.

(b) Mr. Zhang Si Min held 15% 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 31.156% 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. Neptunus Bio-engineering was in turn beneficially interested in approximately 67.5% of the entire issued share capital of the Company as at 30 June 2010.

(c) Ms. Yu Lin was beneficially interested in 0.012% of the entire issued share capital of Neptunus Bio-engineering, which in turn was beneficially interested in approximately 67.5% of the entire issued share capital of the Company as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, 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 to in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME, CONVERTIBLE SECURITIES AND WARRANTS

Up to 30 June 2010, the Company and its subsidiary and its jointly controlled entity have not adopted any share option scheme and have not granted any option, convertible securities, warrants or other similar rights.

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

At any time during the Relevant Period, none of the Directors or supervisors of the Company or their respective spouse or minor children were granted any share options, warrants or convertible bonds of the Company, its subsidiary, its jointly controlled entity or associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND ASSOCIATED SHARES

So far as the Directors and supervisors of the Company are aware, as at 30 June 2010, 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 shareholders	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%

Notes:

(a) Neptunus Group was deemed to be interested in the 639,000,000 domestic shares of the Company held by Neptunus Bio-engineering as Neptunus Group was beneficially interested in approximately 31.156% 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 directions of Neptunus Group.

(b) Ankeen Enterprises was deemed to be interested in 639,000,000 domestic shares of the Company held by Neptunus Bio-engineering as Ankeen Enterprises was beneficially interested in approximately 41.9% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 31.156% of the entire issued share capital of Neptunus Bio-engineering. Neptunus Bio-engineering and its directors were accustomed to act in accordance with the directions of Neptunus Group.

(c) Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in 639,000,000 domestic shares of the Company held by Neptunus Bio-engineering as Ms. Wang was beneficially interested in 85% of the entire issued share capital of Ankeen Enterprises, which in turn was beneficially interested in approximately 41.9% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 31.156% of the entire issued share capital of Neptunus Bio-engineering. Neptunus Bio-engineering and its directors were accustomed to act in accordance with the directions of Neptunus Group.

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

Save as disclosed above, the Directors and supervisors of the Company are not aware of any other persons (except the Directors, supervisors or chief executives of the Company) who held any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2010.

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

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

COMPETING INTERESTS

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

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

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

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the Relevant Period, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the "required standard of dealings" as 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 confirmed that they have not conducted any transaction in respect of the Company's securities during the Relevant Period. The Company is not aware of any violation by the Directors on the "required standard of dealings" and the Company's code of conduct regarding securities transactions by the Directors.

AUDIT COMMITTEE

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

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

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

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

Shenzhen, the PRC, 13 August 2010

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