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

2010 ANNUAL REPORT

* 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.

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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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 Jian Bo

COMPLIANCE OFFICER

Mr. Zhang Si Min

AUTHORISED REPRESENTATIVES

Mr. Chai Xiang Dong
Mr. Huang Jian Bo

AUDITORS

Crowe Horwath (HK) CPA Limited

LEGAL ADVISER

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

PRINCIPAL BANKS

China Construction Bank Shenzhen CBD Sub-branch

H SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

REGISTERED OFFICE

1/F, Block 1, Research Building,
Neptunus Technical Center,
Langshan 2nd R.N.,
Nanshan District,
Shenzhen, Guangdong Province,
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

35th Floor, Bank of China Tower,
1 Garden Road, Central, Hong Kong

WEBSITE

www.interlong.com

STOCK CODE

8329

Chairman's Statement

Dear shareholders,

During the year ended 31 December 2010 (the "Year"), the Company and its subsidiaries, Ascendent Bio-Technology Company Limited ("Ascendent"), Fuzhou Neptunus Fuyao Pharmaceutical Company Limited ("Neptunus Fuyao"), Taizhou Neptunus Bio-technique Company Limited ("Taizhou Neptunus") and its jointly controlled entity, Shenzhen GSK-Neptunus Biologicals Co., Ltd. ("GSK-Neptunus") (collectively the "Group") carried out and completed business reorganization, expansion plans for new businesses and the Company's share capital expansion in total. Firstly, the influenza vaccines business of GSK-Neptunus is progressing on the normal schedule; secondly, Neptunus Fuyao together with its subsidiaries, newly acquired by the Group, has achieved sustainable development in several drug categories, including transfusion, generic drugs, herbal medicine and anti-tumor drugs, etc.; thirdly, the Group newly established Taizhou Neptunus, making significant progress in the process optimization and the production of clinical samples of the new product (recombinant human thymosin α1 for injection). Meanwhile, the Company is engaged in the study of influenza vaccines and cytokines as well as provision of research and development ("R & D") services.

The influenza vaccines business is a key business to be developed by the Group. GSK-Neptunus, after being jointly formed and established by the Company and GlaxoSmithKline Pte Ltd ("GSK"), has been devoted to the development of influenza vaccines business. 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 4-valent influenza vaccine and pandemic flu vaccines. During the Year, the influenza vaccine production base of GSK-Neptunus has tested its system and equipments and currently the equipment preparation before trial operation is going smoothly.

The Company completed the acquisition of the 80% equity interests in Neptunus Fuyao on 14 December 2010, pursuant to which Neptunus Fuyao became a subsidiary of the Company. Neptunus Fuyao, together with its subsidiaries, own more than 450 pharmaceutical production permits and 17 types of dosage medicine covering several categories, including transfusion, generic drugs, herbal medicine and anti-tumor drugs, etc.. From 2005 to 2009, the net profit of Neptunus Fuyao has a compound growth rate of over 40% and was the market leader in the pharmaceutical industry of Fujian Province in terms of net profit. During the Year, the growth rate of Neptunus Fuyao remained higher than its growth rate in the corresponding period in the previous year. It will have material and positive impacts on the Group's operating revenue and profitability for Neptunus Fuyao to become a subsidiary of the Company.

The Company established a subsidiary, Taizhou Neptunus, with Shenzhen Neptunus Pharmaceutical Company Limited ("Neptunus Pharmaceutical") in Taizhou City, Jiangsu Province, the PRC, on 18 August 2010. The Company and Neptunus Pharmaceutical established Taizhou Neptunus with the aim of undertaking research and development of new types of cytokines products (including but not limited to recombinant human thymosin α1 for injection). It is expected that if Taizhou Neptunus can make good progress in the R&D of new types of cytokines products, it will consider carrying out the production and sales of such new products by the way of joint venture, which will bring new opportunities for the Group to increase its mid-term profit level.

Chairman's Statement

The Company also focuses on the R&D business and provides R&D services to Neptunus Pharmaceutical, a subsidiary of Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering"), and GSK-Neptunus. In addition to provision of R&D services to its related companies, the Company is committed to the research of its own biological R&D projects, so as to seek new entry points for the development of the Group's future business.

On 3 November 2010, the Company completed the issuing and allotment of 189,330,000 new H shares and received net proceeds of approximately HK$164,252,000. During the placing of new H shares, the Company is recognized by more investors and its proceeds will provide funding support for the Group's business development.

The board of Directors (the "Board") believes the business of the Group is developing well 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 staff for their continuing support to and trust in the Group.

Zhang Si Min
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

During the Year, the Group was principally engaged in the R&D of modern biological technology (the "R&D Business") and influenza vaccines business. During the year 2009, the Group has suspended the production and sales of cytokine therapeutic drugs (the "Cytokines Business"), including recombinant human interferon α 2b for injection and recombinant human interleukin-2 for injection (125Ser) (the "Cytokines Products"). Consequently, during the Year, the Company was engaged in the development of the R&D Business and established GSK-Neptunus 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. During the Year, the Company also entered into an agreement with Neptunus Bio-engineering and Neptunus Pharmaceutical in relation to the conditional acquisition of 75% and 5% equity interests in Neptunus Fuyao held by Neptunus Bio-engineering and Neptunus Pharmaceutical respectively ("Fuyao Equity Transfer Agreement"), with a view to rapidly expand its revenue source of the main businesses through the incorporation of herbal medicine, generic drugs, transfusion and anti-tumor drugs businesses. This acquisition was completed prior to the date of this report.

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. As at the date of this report, GSK-Neptunus is beneficially owned by the Company and GSK as to 51% and 49% respectively.

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, equipments 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.

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 alteration of business registration in respect of the transfer of 9% equity interests in GSK-Neptunus between the Company and GSK was completed and the Company received the consideration for the transfer of 9% equity interests in GSK-Neptunus which is equivalent to 150% of the original value of such equity interests, namely USD10,574,550. Starting from 12 August 2010, GSK-Neptunus is beneficially owned by the Company and GSK as to 51% and 49% respectively.

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 4-valent influenza vaccine and pandemic flu vaccines. During the Year, the influenza vaccine production base of GSK-Neptunus has tested its system and equipments and currently the equipment preparation before trial operation is going smoothly.

Acquisition of Neptunus Fuyao and Its Business

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.

Thereafter, the Company proactively negotiated with Neptunus Bio-engineering and Neptunus Pharmaceutical in respect of the acquisition of their respective 75% and 5% equity interests in Neptunus Fuyao. The Company, Neptunus Bio-engineering and Neptunus Pharmaceutical entered into the Fuyao Equity Transfer Agreement in respect of the acquisition (the "Fuyao Acquisition") of 80% 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 80% of the registered capital of Neptunus Fuyao at a consideration of RMB433,600,000, which should be fully settled by the issue of 542,000,000 domestic shares of the Company ("Consideration Shares") to Neptunus Bio-engineering at an agreed issue price of RMB0.80 per share (the fair value of the shares at the completion date on 14 December 2010 was RMB0.82 per share) within 60 days after the completion of the Fuyao Acquisition and upon the completion of certain procedures relating to the issue and allotment of the domestic shares of the Company under the PRC laws.

Management Discussion and Analysis

In view of the reform in PRC's medical and hygiene system and PRC's "three main focuses" in the medical industry: "speeding up basic medical protection system", "setting up national basic medication system" and "provision of comprehensive basic medical and hygiene service system", the Board believes that the generic drugs market is and will be growing rapidly in the PRC and there will be a great development potential for such drugs. Neptunus Fuyao and its subsidiaries together own more than 40 production lines for 17 types of medications in dose form, all of which have passed the GMP qualifications and obtained the relevant national GMP certificates. In addition, Neptunus Fuyao and its subsidiaries together own more than 450 approvals in relation to the production of drugs, most of which are generic drugs. Thus the Board takes the view that Neptunus Fuyao has great potential to develop in the medical industry under the current government policy and market circumstances and the acquisition of Neptunus Fuyao will provide the Company with good business potential.

The Fuyao Equity Transfer Agreement and the transactions contemplated thereunder were approved by the independent shareholders at the extraordinary general meeting and class meetings of the Company convened on 13 September 2010, and were approved at general meetings of Neptunus Bio-engineering, Neptunus Pharmaceutical and Neptunus Fuyao. As a condition precedent to the Fuyao Acquisition, the Company completed the issuing and allotment of 189,330,000 new H shares on 3 November 2010, upon which the total number of issued shares of the Company was 1,136,000,000 shares, consisting of 710,000,000 domestic shares and 426,000,000 H shares. The alteration of business registration for the 80% equity interests in Neptunus Fuyao was completed on 14 December 2010, as a result of which the Company held 80% of the registered capital of Neptunus Fuyao and Neptunus Fuyao became a subsidiary of the Company. Subsequent to the completion of the Fuyao Acquisition, on 2 March 2011, the Company issued and allotted 542,000,000 domestic shares as Consideration Shares to Neptunus Bio-engineering and following the completion of the issue and allotment of the Consideration Shares, the total number of issued shares of the Company was 1,678,000,000 shares, consisting of 1,252,000,000 domestic shares and 426,000,000 H shares.

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 the joint venture of influenza vaccine and the Fuyao Acquisition, the Company intends to expand the categories of its cytokines products by the way of co-operation, thus revitalizing its Cytokines Business.

The Company established a subsidiary, Taizhou Neptunus, in Taizhou City, Jiangsu Province, the PRC, on 18 August 2010. Taizhou Neptunus has a registered capital of RMB1,000,000, of which RMB800,000 was contributed by the Company and RMB200,000 was contributed by Neptunus Pharmaceutical. Taizhou Neptunus is owned as to 80% by the Company and 20% by Neptunus Pharmaceutical. As at 31 December 2010, all the capital contribution to Taizhou Neptunus was made.

The business scope of Taizhou Neptunus as set out in its business license is the R & D of biopharmaceutical products.

Taizhou Neptunus, established by the Company and Neptunus Pharmaceutical, is carrying out the study on process optimization and the production of clinical samples of the product (recombinant human thymosin α1 for injection), for which Neptunus Pharmaceutical has obtained the clinical approval, and has made significant progress. The Company expects that if Taizhou Neptunus makes good progress in the R&D of new types of cytokines products, it will consider carrying out the industralization of such new products by way of joint venture.

R&D Business

During the Year, 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 and 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 RMB3,322,000 for the Company during the Year.

Placing and Issue of New H Shares

On 18 October 2010 (after trading hours), the Company entered into a placing agreement (the "Placing Agreement") with First Shanghai Securities Limited (the "Placing Agent") whereby the Company agreed to place, through the Placing Agent, on a best effort basis, a maximum of 189,334,000 new H shares (the "Placing Shares") to not less than six placees at a price of HK$0.89 per share (the "Placing"). The maximum of 189,334,000 Placing Shares represent (i) 20% of the issued share capital of the Company as at the date of the Placing Agreement; and (ii) approximately 16.67% of the issued share capital of the Company as enlarged by the issue of a maximum of 189,334,000 placing shares and will be issued under a specific mandate. The Company intends to use the net proceeds from the Placing to (i) repay a portion of the Company's outstanding indebtedness; (ii) provide working capital to finance the operation of the Company and to develop the R&D Business; and (iii) provide working capital for the GSK-Neptunus to develop its vaccine business. On 3 November 2010, the Company completed the issuing and allotment of 189,330,000 new H shares and received net proceeds of approximately HK$164,252,000.

PROSPECTS

The Company has completed the acquisition of Neptunus Fuyao. Neptunus Fuyao, together with its subsidiaries, own more than 450 pharmaceutical production permits and 17 types of dosage medicine covering several categories, including transfusion, generic drugs, herbal medicine and anti-tumor drugs, etc. of which, 127 drugs are listed on the National Essential Drugs List and all were successful in the tender held in Fujian Province in 2010. There are 5 anti-tumor drugs under the anti-tumor drug category, and 2 other anti-tumor products are scheduled to be launched within a few years. Drugs under the herbal medicine category yield a high profit-margin and have great market potential. 8 exclusive herbal medicines are already in the market and 2 other herbal medicines are scheduled to be launched in 2011. From 2005 to 2009, the net profit of Neptunus Fuyao has a compound growth rate of over 40%. It was the market leader in the pharmaceutical industry of Fujian Province in terms of net profit. During the Year, the growth rate of Neptunus Fuyao remained higher than its growth rate in the corresponding period in the previous years.

Neptunus Fuyao will take advantage of favourable local policies and continue to improve its sales performance and market share in Fujian Province. At the same time, Neptunus Fuyao also plans to integrate with the nation-wide retail and distribution network of the Neptunus system and expand into markets outside Fujian Province. It will focus on promoting the premium herbal medicine and premium anti-tumor drugs of Neptunus Fuyao, which is expected to have positive impacts on the operating revenue and profits of Neptunus Fuyao in the future. Our Board believes that it will have material and positive impacts on the Group's operating revenue and profitability for Neptunus Fuyao to become a subsidiary of the Company.

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 domestic and overseas vaccine market. The Board believes that such domestic and overseas 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.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group's turnover for the Year was approximately RMB38,256,000, representing an increase of 935% from that of approximately RMB3,696,000 in the corresponding period last year. Turnover for the Year was mainly derived from sales income of medicine products of a subsidiary, Neptunus Fuyao, and revenue of R&D Business. Sales income and revenue of R&D Business accounted for 93% and 7% of the total revenue respectively. The increase in turnover was because that Neptunus Fuyao became a subsidiary of the Company in December 2010 and its sales income of medicine was approximatley RMB35,608,000 in December 2010.

The Group's gross profit and gross profit margin for the Year were approximately RMB12,380,000 and 32% respectively, increasing by RMB11,403,000 and 6% respectively compared with that of the corresponding period last year. The increase in gross profit was because that Neptunus Fuyao, which became a subsidiary of the Company in December 2010, had a gross profit of approximately RMB12,116,000.

The Group's other revenue for the Year was approximately RMB37,220,000, increasing by approximately RMB30,164,000 as compared with that of the corresponding period last year, representing an increase of approximately 427%. The increase in other revenue was mainly due to the fact that the Group sold 9% equity interests in GSK-Neptunus held by the Company during the Year, resulting in a gain of approximately RMB28,674,000.

The Group's selling and distribution costs for the Year amounted to approximately RMB7,232,000, increasing by approximately RMB6,075,000 compared with that of the corresponding period last year, representing an increase of approximately 525%. The increase was due to the suspension of the sales of related medicine products by the Group during relevant period last year and therefore no more related expenses incurred, as well as the fact that Neptunus Fuyao, which became a subsidiary of the Company in December 2010, had selling costs of approximatley RMB7,232,000.

The Group's administrative expenses for the Year amounted to approximately RMB37,200,000, increasing significantly by approximately RMB12,034,000 from approximately RMB25,166,000 in the corresponding period last year, representing an increase of approximately 48%. The increase in administrative expenses was because of three reasons: (i) Neptunus Fuyao, which became a subsidiary of the Company in December this Year, had administrative expenses of approximately RMB5,514,000; (ii) agent fees, including legal fees, audit expenses, and evaluation fees incurred by the Group in relation to the joint venture, acquisitions and other businesses increased significantly; and (iii) the Group completed the issuing and allotment of 189,330,000 new H shares and received net proceeds of approximately HK$164,252,000 this year. Due to the foreign exchange control by Chinese government and the appreciation of Renminbi, a exchange loss of approximately RMB2,220,000 was incurred in this Year.

The Group's other operating expenses for the Year amounted to approximately RMB20,350,000, increasing by approximately RMB12,827,000 compared with that of the corresponding period last year, representing an increase of approximately 171%, mainly because (i) GSK-Neptunus upgraded its existing facility in accordance with new GMP, therefore an impairment provision of approximately RMB16,454,000 was made for related assets, for which the Group recorded an expense of approximately RMB9,316,000 on a pro rata basis; and (ii)the Company disposed its cytokines production lines and renovation projects during the Year, resulting in a loss of approximately RMB1,291,000.

The Group's finance costs for the Year was approximately RMB15,330,000, a significant increase of approximately RMB3,667,000 from approximately RMB11,633,000 in the corresponding period last year. The increase was primarily because that the financial assistance provided by Neptunus Bio-engineering, the Company's immediate parent company, which was interest-free in previous years, started to accrue interest since this Year at one-year loan interest rate stipulated by the People's Bank of China for the corresponding period, resulting in an interest expense of approximately RMB4,709,000 for the Year.

The Group's loss before taxation for the Year decreased from approximately RMB37,476,000 in the corresponding period last year to approximately RMB30,512,000. The decrease in loss was mainly due to the disposal of 9% equity interests in GSK-Neptunus, resulting in a gain of approximately RMB28,674,000, and the acquisition of Neptunus Fuyao which contributed profit before taxation of approximately RMB1,420,000 for the Year.

As such, loss attributable to the owners of the Company amounted to approximately RMB30,104,000 for the Year, compared with approximately RMB37,476,000 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.

As at 31 December 2010, the Group's total borrowings were RMB307,155,000, of which RMB86,000,000 was long-term bank borrowings, RMB82,000,000 was short-term bank borrowings, RMB48,000,000 was entrusted loans from Neptunus Bio-engineering, the Company's controlling shareholder, and approximately RMB91,155,000 was interest-bearing shareholder financial assistance from Neptunus Bio-engineering.

Banking facilities

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 but not limited to the pledge of the domestic shares of the Company then 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 RMB20,000,000 and interest of RMB5,778,000 to CDB in accordance with the repayment schedule stipulated in the CDB Loan Agreement.

On 15 April 2009, Neptunus Bio-engineering entered into a consolidated credit facilities agreement (the "Facilities Agreement") with Longgang Sub-branch of Shenzhen Development Bank Company Limited ("SDB"). During 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"). Pursuant to the Maximum Amount of Pledge Guarantee Agreement entered into between Neptunus Bio-engineering and Neptunus Pharmaceutical and SDB, 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). The Company repaid this Credit Loan on 3 June 2010. All of the funds used to repay the Credit Loan were from the special financial assistance from Neptunus Bio-engineering.

As at 31 December 2010, the Group's short-term bank borrowings were RMB 82,000,000, all of which were short-term bank borrowings of Neptunus Fuyao.

On 20 July 2010, Neptunus Fuyao was granted a short-term loan of RMB 5,000,000 from the Fuzhou Branch of Pingan Bank. This loan is bearing an annual interest rate of 5.31% and will be repaid on 19 July 2011.

On 3 August 2010, Neptunus Fuyao was granted a short-term loan of RMB28,000,000 from the Guishan (Fuzhou) Sub-branch of Agricultural Bank of China ("Guishan Sub-branch of ABC") by pledging its buildings and land use rights. This loan is bearing an annual interest rate of 4.779% and will be repaid on 27 July 2011.

On 10 August 2010, Neptunus Fuyao was granted a short-term loan of RMB 29,000,000 from Guishan Sub-branch of ABC, by pledging its buildings and land use rights. This loan is bearing an annual interest rate of 4.779% and will be repaid on 9 August 2011.

On 30 September 2010, Neptunus Fuyao was granted a short-term loan of RMB 20,000,000 from Guishan Sub-branch of ABC. This loan is bearing an annual interest rate of 4.779% and will be repaid on 29 September 2011.

Shareholder's interest-bearing financial assistance

As at 31 December 2010, the financial assistance obtained by the Company from Neptunus Bio-engineering amounted to approximately RMB91,155,000. Such financial assistance was interest-free in prior years and the Company had not pledged its assets as security for such financial assistance. Starting from this Year, the financial assistance from Neptunus Bio-engineering had 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 31 December 2010 amounted to RMB48,000,000.

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 allotment 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. The Company repaid this entrusted loan to Neptunus Bio-engineering on 13 October 2010.

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 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 then held by it (representing approximately 67.5% of the Company's then issued share capital and approximately 38.08% of the Company's issued share capital at the date of this report) 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 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.

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 then held by him (representing approximately 5.04% of the Company's then issued share capital and approximately 2.84% of the Company's issued capital at the date of this report) 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.

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 issue of additional H shares in the Company in the future to the Account. If after completion of the issues of additional H shares, the principal amount and accrued interests under the CDB Loan Agreement (together, the "Outstanding Loan") have not been fully repaid, all the funds raised by the Company from the issue of additional H shares 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 interests 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.

NET CURRENT ASSETS

As at 31 December 2010, the Group had net current assets of approximately RMB15,645,000. Current assets comprised cash and cash equivalents of approximately RMB247,056,000, bank guarantee deposits of approximately RMB5,640,000, amounts due from related parties of approximately RMB12,492,000, inventories of approximately RMB89,434,000, prepayments, deposits and other receivables of approximately RMB71,716,000. Current liabilities comprised trade and bills payables of approximately RMB57,524,000, interest-bearing bank borrowings to be repaid within one year of approximately RMB106,000,000, taxes payable of approximately RMB7,846,000, receipts in advance and other payables of approximately RMB51,146,000, amounts due to related parties of approximately RMB188,177,000. The net current liabilities of the Group were approximately RMB11,372,000 as at 31 December 2009. The decrease in the net current liabilities of the Group in the Year was mainly due to the fact that the Group completed the placing of new H Shares on 3 November 2010 and received net proceeds of approximately HK$164,252,000.

PLEDGE OF ASSETS

Pursuant to the loan agreements entered into between the Company's subsidiary Neptunus Fuyao and Guishan Sub-branch of ABC on 3 August 2010 and 10 August 2010 respectively, Neptunus Fuyao pledged part of its lawfully owned land use rights and buildings to Guishan Sub-branch of ABC.

FOREIGN CURRENCY RISK

During the Year, the Group's operating revenue, major selling costs and capital expenditure were denominated in Renminbi. Proceeds from the issue of 189,330,000 new H shares of approximately HK$164,252,000 were not fully translated into RMB in accordance with national foreign exchange regulations. As such, the exchange rate fluctuation of Hong Kong dollars against RMB may affect the Group's profit for the Year. However, the foreign currency risk facing the Group is limited. Currently, the Group has not adopted any financial instrument for hedging purposes.

SEGMENT INFORMATION

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

CAPITAL COMMITMENTS

As at 31 December 2010, the Group has contracted commitments for future capital expenditue of approximately RMB36,143,000. The Board believes that such capital expenditure can be financed by proceeds from the issue of new H shares and bank borrowings.

CONTINGENT LIABILITY

As at 31 December 2010, neither the Group nor the Company had any significant contingent liability.

MAJOR INVESTMENT PLANS

During the Year, other than developing the businesses disclosed in the Prospectus, the aforesaid Fuyao Acquisition and establishing a subsidiary, Taizhou Neptunus, the Company did not make any other major investments.

HUMAN RESOURCES

As at 31 December 2010, the Company employed a total of 34 staff (2009: 30). During the Year, the staff costs including Directors' remuneration which amounted to approximately RMB4,570,000 (2009: approximately RMB7,050,000). 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 2010, the number of employees of the Company categorized by various functions was set out as follows:

	As at 31 December	
	2010	2009
R&D	**23**	22
Administration	**11**	8
Total	**34**	30

Compared with 31 December 2010, the number of employees in administration department slightly increased, which was mainly due to the increase in the numbers of subsidiaries in the Year.

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 49, 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, member of the Standing Committee of Shenzhen 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 50, 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 as director of the Company. Mr. Chai received his doctorate degree in chemistry from Jilin University of the PRC and Super Molecule Chemical Laboratory of Collège de France (法蘭西學院) of France, and was a former professor of Chemistry Department of Jilin University of the PRC. Mr. Chai also obtained an EINBA degree from Euro-China International Business College. Mr. Chai is currently a visiting professor of Shenzhen University and member of MBA Education Committee of Shenzhen University. He has extensive experience in listed medical companies management and international project cooperation with domestic companies.

NON-EXECUTIVE DIRECTORS

Ms. Yulin (于琳), aged 54, 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 66, 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 early 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 53, 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 28 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. 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.

Mr. Poon Ka Yeung (潘嘉陽), aged 44, 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 49, 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 55, 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 39, has been elected as a supervisor of the Company since June 2002. Mr. Yu is now an employee of the Company.

SENIOR MANAGEMENT

Ms. Lee Mei Yi (李美儀), aged 43, 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 15 years of experience in the corporate secretarial area.

Mr. Huang Jian Bo (黃劍波), aged 35, 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 34, 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.

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 2010.

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 ended 31 December 2010, and the published consolidated results and assets and liabilities of the Group for the Year is set out on pages 40 to 138.

DIVIDENDS

The Directors do not recommend the distribution of any dividends for the Year (2009: 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 Company's share capital during the Year are set out in note 28 to financial statements.

RESERVES

Details of movements in the reserves of the the Group and Company during the Year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2010, 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 approximately RMB130,024,000.

CAPITALIZED INTEREST

The Group has no capitalized interest during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

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

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.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for approximately 10% of the total sales for the Year and sales to the largest customer included therein amounted to 5%. Purchases from the Group's five largest suppliers accounted for approximately 16% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 5%.

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. 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.

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.

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

As far as the Directors or supervisors of the Company are aware, as at 31 December 2010, 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 or had otherwise notified to the Company 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%	4.19%
Mr. Yu Jun *(Note (2))*	Beneficial owner	Personal	1,014,000	0.14%	0.08%

Notes:

(1) Executive director and general manager of the Company

(2) Supervisor and employee of the Company.

Long positions in shares of associated corporations of the Company:

Director	Capacity	Type of interests	Name of associated corporation	Number of shares 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 56.25% of the entire issued share capital of the Company as at 31 December 2010.

(b) Mr. Zhang Si Min held 15% of the entire issued 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 27.66% of the entire issued share capital of Neptunus Bio-engineering, which in turn was beneficially interested in approximately 56.25% of the entire issued share capital of the Company as at 31 December 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 56.25% of the entire issued share capital of the Company as at 31 December 2010.

Save as disclosed above, as at 31 December 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 in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME, CONVERTIBLE SECURITIES AND WARRANTS

Up to 31 December 2010, the Company and its subsidiaries have not adopted any share option scheme and have not granted any option, convertible securities, warrants or other similar rights.

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

At any time during the Year, none of the Directors or supervisors of the Company or their respective spouse or minor children were granted any share options, warrants or convertible bonds of the Company, its subsidiaries, its jointly controlled entity 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 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 or had otherwise notified to the Company 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%	56.25%
Neptunus Group *(Note (a))*	Interest in controlled corporation	639,000,000	90%	56.25%
Ankeen Enterprises *(Note (b))*	Interest in controlled corporation	639,000,000	90%	56.25%
Ms. Wang Jin Song *(Note (c))*	Interest in controlled corporation	639,000,000	90%	56.25%
Ms. Li Li *(Note (d))*	Interest of spouse	47,671,000	6.71%	4.19%

Notes:

(a) Neptunus Group was deemed to be interested in 639,000,000 domestic shares of the Company held by Neptunus Bio-engineering as Neptunus Group was beneficially interested in approximately 27.66% of the entire issued share capital of Neptunus Bio-engineering and Neptunus Bio-engineering.

(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 27.66% of the entire issued share capital of Neptunus Bio-engineering.

(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 27.66% of the entire issued share capital of Neptunus Bio-engineering.

(d) Ms. Li Li ("Ms. Li") was deemed to be interested in 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 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 2010, 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.

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 transaction was 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 2010, 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 three years commencing from 1 January 2010 and expiring on 31 December 2012 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 transaction was 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 32 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 Transaction Exempt from Independent Shareholders' Approval Requirements

The continuing connected transaction exempt from independent shareholders' approval requirements under Rule 20.34 of the GEM Listing Rules undertaken by the Group during the Year is set out below:

Pharmaceutical R&D Service Agreement

On 24 August 2009, the Company and Neptunus Pharmaceutical entered into the a 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 RMB2,000,000. 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 Transaction Non-exempt from Independent Shareholders' Approval

The continuing connected transaction undertaken by the Group during the Year which are not exempt from independent shareholders' approval requirements under Rule 20.34 of the GEM Listing Rules is set out below:

GSK-Neptunus Service Agreement

On 16 July 2010, GSK-Neptunus entered into a service agreement ("GSK-Neptunus Service Agreement") with GlaxoSmithKline (China) Investment Company Ltd. ("GSK China") for the provision of legal and company secretarial, human resources, finance and senior management services by GSK China to GSK-Neptunus to facilitate the proper operation and business management of GSK-Neptunus. In consideration of the services of GSK China, GSK-Neptunus agreed to pay in total a service fee of RMB5,129,000 to GSK China. The service fee was determined by reference to the estimate time cost and operation cost of GSK China for providing such services. The term of the service agreement expired on 31 December 2010.

The Company issued a circular dated 25 August 2010 in relation to, among other, such continuing connected transaction and disclosed that the annual cap of such continuing connected transaction for the financial year of 2010 would not exceed RMB5,129,000. Such continuing connected transaction was approved by the independent shareholders of the Company at the extraordinary general meeting and class meetings of the Company convened on 13 September 2010.

During the Year, GSK-Neptunus has, according to the GSK-Neptunus Service Agreement, paid to GSK China an aggregate service fee of approximately RMB3,330,000. Such actual service fee paid do not exceed the annual cap as disclosed in the relevant circular dated 25 August 2010.

Having considered above, Directors (including non-executive Directors and independent non-executive Directors) believe that the terms and conditions of the GSK-Neptunus Service Aqreement are on normal commercial terms and are fair and reasonable,and that the entering into GSK-Neptunus Service Agreement is in the interests of the Company and the shareholders of the Company as a whole.

Continuing connected transaction undertaken by the Company during the Year are also set out in note 32 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.

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.

AUDITOR

Crowe Horwath (HK) CPA Limited, Certified Public Accountants, was appointed as the Company's auditor in 2010. The financial statements has been audited by Crowe Horwath (HK) CPA Limited, 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 Crowe Horwath (HK) 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

16 March 2011

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 2010, 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 18 to 19.

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.

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 RMB1,854,000 (2009: RMB2,281,000) was charged to the Company's income statement for the Year as follows:

Services rendered	**Fee paid / payable Approximately** RMB
Audit services (2009: approximately RMB1,234,000)	1,300
Other services	554
Total:	1,854

(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.

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
16 March 2011

Crowe Horwath

國富浩華 (香港) 會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

34/F The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHENZHEN NEPTUNUS INTERLONG BLO-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"), its subsidiaries and its jointly controlled entity (together the "Group") set out on pages 40 to 138, which comprise the consolidated and Company statements of financial position as at 31 December 2010 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR' S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 16 March 2011

Alvin Yeung Sik Hung
Practising Certificate Number P05206

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
TURNOVER	3, 12	**38,256**	3,696
COST OF SALES		**(25,876)**	(2,719)
GROSS PROFIT		**12,380**	977
OTHER REVENUE	4	**8,361**	712
OTHER NET INCOME	4	**28,859**	6,344
Selling and distribution expenses		**(7,232)**	(1,157)
Administrative expenses		**(37,200)**	(25,166)
Other operating expenses		**(20,350)**	(7,523)
LOSS FROM OPERATIONS		**(15,182)**	(25,813)
Finance costs	5(a)	**(15,330)**	(11,663)
LOSS BEFORE TAXATION	5	**(30,512)**	(37,476)
Income tax	6(a)	**131**	—
LOSS FOR THE YEAR		**(30,381)**	(37,476)
Attributable to:			
Owners of the Company		**(30,104)**	(37,476)
Non-controlling interests		**(277)**	—
		(30,381)	(37,476)
Loss per share			
Basic and Diluted	11	**RMB(3.00) cents**	RMB(3.96) cents

The notes on pages 49 to 138 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Loss for the year	**(30,381)**	(37,476)
Other comprehensive loss for the year		
Exchange differences on translation of:		
- Financial statements of a jointly controlled entity	**(4,120)**	(35)
Total other comprehensive loss for the year, net of tax	**(4,120)**	(35)
Total comprehensive loss for the year	**(34,501)**	(37,511)
Attributable to:		
Owners of the company	**(34,224)**	(37,511)
Non-controlling interests	**(277)**	—
Total comprehensive loss for the year	**(34,501)**	(37,511)

The notes on pages 49 to 138 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**326,897**	185,044
Prepaid lease payments	14	**90,668**	22,986
Intangible assets	15	**138,695**	79
Deposit for acquisition of property, plant and equipment		**1,144**	5,707
Available-for-sale investments	18	**60**	—
Deferred tax assets	25(b)	**1,898**	726
		559,362	214,542
CURRENT ASSETS			
Inventories	19	**89,434**	117
Trade and other receivables	20	**84,208**	73,406
Pledged bank deposits	21	**5,640**	—
Cash and cash equivalents	22	**247,056**	55,361
		426,338	128,884
CURRENT LIABILITIES			
Trade and other payables	23	**248,847**	87,914
Interest-bearing bank borrowings	24	**106,000**	50,000
Entrusted loans from the immediate parent company	26	**48,000**	—
Current taxation	25(a)	**7,846**	2,342
		(410,693)	(140,256)
NET CURRENT ASSETS/ (LIABILITIES)		**15,645**	(11,372)
TOTAL ASSETS LESS CURRENT LIABILITIES		**575,007**	203,170

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**62,000**	86,000
Entrusted loans from the immediate parent company	26	**—**	78,000
Deferred revenue	27	**16,843**	5,819
Deferred tax liabilities	25(b)	**40,296**	—
		(119,139)	(169,819)
NET ASSETS		**455,868**	33,351
CAPITAL AND RESERVES			
Share capital	28	**167,800**	94,667
Reserves	29	**223,042**	(61,316)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**390,842**	33,351
NON-CONTROLLING INTERESTS		**65,026**	—
TOTAL EQUITY		**455,868**	33,351

Approved and authorised for issue by the board of directors on 16 March 2011.

Zhang Si Min
Director

Chai Xiang Dong
Director

The notes on pages 49 to 138 form part of these financial statements.

Statement of Financial Position

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**21,199**	26,204
Intangible assets	15	**37**	79
Interest in subsidiaries	16	**445,240**	—
Interest in a jointly controlled entity	17	**240,288**	298,654
Available-for-sale investments	18	**60**	—
Deferred tax assets	25(b)	**726**	726
		707,550	325,663
CURRENT ASSETS			
Inventories	19	**—**	99
Trade and other receivables	20	**2,809**	3,210
Cash and cash equivalents	22	**157,372**	3,479
		160,181	6,788
CURRENT LIABILITIES			
Trade and other payables	23	**119,147**	82,644
Interest-bearing bank borrowings	24	**24,000**	50,000
Entrusted loans from the immediate parent company	26	**48,000**	—
Current taxation	25(a)	**2,342**	2,342
		(193,489)	(134,986)
NET CURRENT LIABILITIES		**(33,308)**	(128,198)
TOTAL ASSETS LESS CURRENT LIABILITIES		**674,242**	197,465

Statement of Financial Position

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**62,000**	86,000
Entrusted loans from the immediate parent company	26	**—**	78,000
Deferred revenue	27	**16,292**	5,819
		(78,292)	(169,819)
NET ASSETS		**595,950**	27,646
CAPITAL AND RESERVES			
Share capital	28	**167,800**	94,667
Reserves	29	**428,150**	(67,021)
TOTAL EQUITY		**595,950**	27,646

Approved and authorised for issue by the board of directors on 16 March 2011.

Zhang Si Min
Director

Chai Xiang Dong
Director

The notes on pages 49 to 138 form part of these financial statements.

Consolidated Statement of Changes in Equity

As at 31 December 2010

	Attributable to owners of the Company								
	Share capital RMB'000 (Note 28)	**Share premium** RMB'000 (Note 29)	**Captial reserve** RMB'000 (Note 29)	**Statutory reserve fund** RMB'000 (Note 29)	**Exchange reserve** RMB'000 (Note 29)	**Accumulated losses** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
At 1 January 2009	94,667	41,923	—	3,330	—	(69,058)	70,862	—	70,862
Comprehensive income									
Loss for the year	—	—	—	—	—	(37,476)	(37,476)	—	(37,476)
Exchange difference on translation of financial statements of a jointly controlled entity	—	—	—	—	(35)	—	(35)	—	(35)
Total comprehensive loss for the year	—	—	—	—	(35)	(37,476)	(37,511)	—	(37,511)
At 31 December 2009 and 1 January 2010	**94,667**	**41,923**	**—**	**3,330**	**(35)**	**(106,534)**	**33,351**	**—**	**33,351**
Comprehensive income									
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(30,104)**	**(30,104)**	**(277)**	**(30,381)**
Exchange difference on translation of financial statements of a jointly controlled entity	**—**	**—**	**—**	**—**	**(4,120)**	**—**	**(4,120)**	**—**	**(4,120)**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**(4,120)**	**(30,104)**	**(34,224)**	**(277)**	**(34,501)**
Issue of new shares	**54,200**	**390,240**	**—**	**—**	**—**	**—**	**444,440**	**—**	**444,440**
Non-controlling interests arising on the acquisition of Neptunus Fuyao	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**65,103**	**65,103**
Formation of a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**200**	**200**
Placing and subscription of new H shares	**18,933**	**126,312**	**—**	**—**	**—**	**—**	**145,245**	**—**	**145,245**
Share issue expenses	**—**	**(3,631)**	**—**	**—**	**—**	**—**	**(3,631)**	**—**	**(3,631)**
Deemed distribution arising on the acquisition of Neptunus Fuyao	**—**	**—**	**(194,339)**	**—**	**—**	**—**	**(194,339)**	**—**	**(194,339)**
Transfer to other reserves	**—**	**—**	**—**	**4,972**	**—**	**(4,972)**	**—**	**—**	**—**
At 31 December 2010	**167,800**	**554,844**	**(194,339)**	**8,302**	**(4,155)**	**(141,610)**	**390,842**	**65,026**	**455,868**

The notes on pages 49 to 138 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES			
Loss before taxation		**(30,512)**	(37,476)
Adjustments for:			
Depreciation		**8,367**	8,273
Amortisation of prepaid lease payments		**598**	421
Amortisation of intangible assets		**512**	1,789
Impairment of trade receivables		**689**	—
Impairment of other receivable		**88**	259
Impairment of property, plant and equipment		**11,151**	1,800
Reversal of impairment allowance on trade receivables		**—**	(208)
Reversal of impairment allowance on other receivables		**(69)**	—
Reversal of written down of inventories		**(116)**	—
Finance costs		**15,330**	11,663
Interest income		**(363)**	(64)
Subsidy income released from deferred revenue		**(7,896)**	(574)
Gain on partial disposal of 9% equity interest of a jointly controlled entity		**(28,674)**	—
Gain on disposal of assets as capital contribution to a jointly controlled entity		**—**	(6,109)
Foreign exchange gain		**—**	(35)
Written down of inventories		**149**	35
Loss on disposal of property, plant and equipment		**1,342**	11
OPERATING LOSS BEFORE CHANGES IN WORKING CAPITAL		**(29,404)**	(20,215)
(Increase) /decrease in inventories		**(8,072)**	1,860
Decrease in trade and other receivables		**76,148**	3,226
Increase in trade and other payables		**24,594**	54,063
		92,670	59,149
CASH GENERATED FROM OPERATIONS		**63,266**	38,934
Income tax paid - PRC		**—**	—
NET CASH GENERATED FROM OPERATING ACTIVITIES		**63,266**	38,934

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES			
Deposit for acquisition of property, plant and equipment		**(395)**	(5,707)
Payment for purchase of property, plant and equipment		**(71,524)**	(24,539)
Investment in unlisted securities		**(60)**	—
Net cash inflow from acquisition of subsidiaries		**78,480**	—
Proceeds from disposal of 9% equity interest in a jointly controlled entity		**70,846**	—
Expenditure on technical know-how and computer software		**—**	(457)
Payment for prepaid lease payments		**—**	(20,555)
Proceeds from disposal of property, plant and equipment		**75**	—
Increase in pledged bank deposits		**(5,640)**	—
Interest received		**363**	64
Government grants received		**18,000**	3,000
Effect on proportionate consolidation of a jointly controlled entity		**—**	52,609
NET CASH GENERATED FROM INVESTING ACTIVITIES		**90,145**	4,415
FINANCING ACTIVITIES			
Proceeds from new bank loans		**—**	30,000
Repayment of bank loans		**(58,000)**	(14,000)
Repayment of entrusted loans from the immediate parent company		**(30,000)**	—
Interest paid		**(15,330)**	(7,761)
Proceeds from issue of shares		**145,245**	—
Share issue expenses		**(3,631)**	—
NET CASH GENERATED FROM FINANCING ACTIVITIES		**38,284**	8,239
NET INCREASE IN CASH AND CASH EQUIVALENTS		**191,695**	51,588
CASH AND CASH EQUIVALENTS AT I JANUARY		**55,361**	3,773
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22	**247,056**	55,361

The notes on pages 49 to 138 form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

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

b) Basis of preparation of the financial statements

The Group incurred a loss attributable to owners of the Company of approximately RMB30,104,000 (2009: approximately RMB37,476,000) and had net current assets of approximately RMB15,645,000 (2009: net current liabilities of approximately RMB11,372,000) as at the end of the reporting period. In addition, as further disclosed in note 34 (a) to the financial statements, as at 31 December 2010, the Group has contracted commitments for future capital expenditure of approximately RMB36,143,000 (2009:RMB47,298,000).

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, on 18 March 2010, the immediate parent company of the Group extended the repayment dates of the two entrusted loans in the amount of RMB48,000,000 to 5 April 2011.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 2010 comprise the Company and its subsidiaries 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 . All amounts are rounded to the nearest thousand except where otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying 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 36.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Subsidiaries and non-controlling interests (continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

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

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. When the group partial disposed the interests in jointly controlled entity without loss of control, the resulting gain or loss is recognized 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 (see note 1(j)), unless classified as held for sale.

e) Investments in equity securities

Available-for-sale equity securities are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Available-for-sale equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses (see note 1(j)) at the end of the reporting period.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property, plant and equipment

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

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

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	5 to 10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 years

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

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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.

g) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised 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(j)). 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 any accumulated impairment losses (see note 1(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Other intangible assets arising from business combinations

Anesthetic drug production & selling right, trade name and customer list acquired in a business combination are recognized at fair value at the acquisition date. The anesthetic drug production & selling right and trade name has indefinite useful life and are carried at cost less impairment losses. The useful life of the anesthetic drug production & selling right and trade name are considered by the management of the Group as indefinitely because the Anesthetic drug production & selling night, and trade name is expected to contribute to the Group's net cash inflows indefinitely. The customer list has a finite useful life of 10 years and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the useful life.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Intangible assets (continued)

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their 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 to 10 years
Trademarks	10 years
Customer list	10 years

Both the amortisation period and method of amortisation are reviewed annually.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Leased assets (continued)

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 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(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). 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.

i) Inventories

Inventories are carried at the lower of cost and net realisable 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 realisable 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 realisable 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Impairment of assets

i) Impairment of investment in equity securities and other receivables

Investment in equity securities other than investments in subsidiaries and jointly controlled entity: see note 1(j) (ii) and other current and non-current receivable that are stated at cost or amortised cost or are classified as available-for-sale equity securities 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;

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

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

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

— For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Impairment of assets (continued)

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

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

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

ii) Impairment of other assets

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;

— prepaid lease payments;

— intangible assets;

— interest in subsidiaries; 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 lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Impairment of assets (continued)

ii) Impairment of other assets (continued)

— 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.

— 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 Growth Enterprise Market of 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(j)).

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) 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(j)).

l) 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.

m) Trade and other payables

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) 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.

o) Employee benefits

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

The Group participates in the central pension scheme (the "CPS") operated by the local government authority for all of its employees. The Group is required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are recognised in profit or loss as they become payable in accordance with the rules of the CPS.

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

ii) Termination benefits

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Provisions and contingent liabilities

i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(q)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(q)(ii).

ii) 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)

r) 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 and returns.

ii) Research and development service income

Revenue from the provision 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) 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.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Renminbi at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e; a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Borrowing costs

Borrowing costs that are 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 are capitalised as part of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

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.

u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) 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.

w) 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(t)), over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is presented as deferred revenue and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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

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.

HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised 2008)	Business combinations
HKAS 27 (Amendments)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Financial instruments: Recognition and measurement-eligible hedged items
HK(IFRIC) - Int 17	Distributions of non-cash assets to owners
HK(Int) 5	Presentation of Financial Statements-Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008

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.

HKAS 27 (revised 2008), consolidated and separate financial statements

The application of HKAS 27(revised 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. Previously, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised. For decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (revised 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

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

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, HKAS 27 (revised 2008) requires the derecognition of all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

In accordance with the transitional provisions of HKAS 27 (revised 2008), these changes in accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Revisions to HKAS 27 (revised 2008) have not had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of such previous transactions.

Amendments to HKAS 17 Leases, as part of Improvements to HKFRSs issued in 2009

HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant, and equipment retrospectively.

The application of the amendments to HKAS 17 has had no impact on the reported profits or loss for the current and prior years.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current, provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period, notwithstanding that the entity could be required by the counterparty to settle in shares at any time.

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

3. TURNOVER

The principal activities of the Group are the research and development ("R&D") of modern biological technology and the provision of R&D services, production and sales medicines 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 net of sale tax.

	2010	2009
	RMB'000	RMB'000
Sales of medicines	**35,608**	2,140
R & D service income	**2,648**	1,556
	38,256	3,696

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

4. OTHER REVENUE AND OTHER NET INCOME

	Note	**2010**	2009
		RMB'000	RMB'000
Other revenue			
Interest income on bank deposits		**363**	64
Total interest income on financial assets not at fair value through profit or loss		**363**	64
Subsidy income released from deferred revenue	27(a)	**7,896**	574
Others		**102**	74
		8,361	712
Other net income			
Exchange gain		**—**	27
Gain on disposal of assets as capital contribution to a jointly controlled entity		**—**	6,109
Gain on partial disposal of 9% equity interest of a jointly controlled entity		**28,674**	—
Reversal of impairment allowance on trade receivable	20(b)	**—**	208
Reversal of impairment allowance on other receivable		**69**	—
Reversal of written down of inventories		**116**	—
		28,859	6,344

5. LOSS BEFORE TAXATION

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

	2010 **RMB'000**	2009 RMB'000
a) Finance costs		
Interest on bank loans wholly repayable within five years	**6,913**	7,761
Interest on financial assistance from the immediate parent company	**4,711**	—
Interest on entrusted loans from the immediate parent company	**3,706**	3,902
Total interest expense on financial liabilities not at fair value through profit or loss	**15,330**	11,663
b) Staff costs		
Contributions to defined contribution retirement plan (including directors)	**1,746**	440
Salaries, wages and other benefits (including directors' emoluments)	**17,037**	5,707
	18,783	6,147

5. LOSS BEFORE TAXATION

	2010	2009
	RMB'000	RMB'000
c) Other items		
Amortisation		
– prepaid lease payments	**598**	421
– intangible assets *	**512**	1,789
Depreciation		
– assets held for own use under operating leases	**3,293**	2,604
– other assets	**5,074**	5,669
Impairment of		
– trade receivables *	**689**	—
– other receivables *	**88**	259
– property, plant and equipment *	**11,151**	1,800
Write down of inventories *	**149**	35
Net foreign exchange loss	**2,926**	—
Loss on disposal of property, plant and equipment *	**1,342**	11
Auditor's remuneration		
– audit services	**1,300**	1,234
– other services	**554**	1,047
Operating lease charges: minimum lease payments	**338**	373
Cost of inventories	**19,516**	1,384
R&D costs *	**6,141**	3,628

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

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) Income tax in the consolidated income statement represents:

	Note	2010 RMB'000	2009 RMB'000
Current tax			
Over provision for PRC Enterprise income tax		**(366)**	—
Deferred tax			
Origination and reversal of temporary differences	25(b)	**235**	—
		(131)	—

Hong Kong Profits Tax has not been provided for as the Group has no income assessable to Hong Kong Profits Tax. (2009: Nil)

The PRC enterprise income tax (the "EIT") for the year ended 31 December 2010 is 25% (2009: 25%).

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

	2010 RMB'000	2009 RMB'000
Loss before taxation	**(30,512)**	(37,476)
Notional tax on loss before taxation, calculated at the rates applicable to loss on the tax jurisdictions concerned	**(7,627)**	(12,958)
Tax effect of non-deductible expenses	**5,537**	3,146
Tax effect of non-taxable income	**(7,325)**	(144)
Tax effect of unused tax losses not recognised	**9,284**	9,956
Actual tax expenses	**(131)**	—

7. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended 31 December 2010 disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	2010 Total RMB'000
Executive directors				
Mr. Zhang Si Min	100	—	—	100
Mr. Chai Xiang Dong	167	505	23	695
Non-executive directors				
Ms. Yu Lin	167	—	—	167
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
	1,058	505	23	1,586

7. DIRECTORS' EMOLUMENTS (continued)

Directors' emoluments for the year ended 31 December 2009 disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are 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

During both years, no remuneration was paid or payable by the Group to any of the directors or any of the five highest paid individuals set out in note 8 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during both years. No bonus was paid or payable to directors which are discretionary or are based on the Group's performance.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2009: one) is a director of the Company whose emoluments are included in the disclosures in note 7. The emoluments of the remaining four (2009: four) individuals are as follows:

	2010	2009
	RMB'000	RMB'000
Salaries and other benefits	**2,298**	1,125
Retirement scheme contributions	**112**	24
	2,410	1,149

Their emoluments are all within the band HK$Nil to HK$1,000,000 (equivalent to approximately RMB842,000) for years ended 31 December 2010 and 2009.

9. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of approximately RMB17,750,000(2009: RMB44,190,000) 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 2010 in view of the losses for the year (2009: 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 RMB30,104,000 (2009: RMB37,476,000) and the weighted average number of approximately 1,004,002,000 ordinary shares (2009: 946,670,000 ordinary shares) in issue during the year.

i) Weighted average number of ordinary shares

	2010	2009
	RMB'000	RMB'000
Issued ordinary shares at 1 January	**946,670**	946,670
Effect of issue of new shares by placement	**30,604**	—
Effect of issue of new shares for the acquisition of subsidiaries	**26,728**	—
Weighted average number of ordinary shares at 31 December	**1,004,002**	946,670

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 years presented.

12. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision-makers ("CODM") who is the executive director of the Company for the purpose of resources allocation and performance assessment.

The Group has presented the following two reportable segments. These segments are managed separately. The medical products segment and R&D services segment offers very different products and services.

i) Manufacturing and selling of medicine products

ii) Provision of R&D services of modern biological technology

Currently all the above Group's activities are carried out in the PRC. No reportable operating segment has been aggregated.

The medical products segment derives its revenue from manufacture and sale of medical products.

The R&D services segment derives its revenue from the provision of R&D services income.

a) Segment results, assets and liabilities

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1(v). Segment profit/loss represents the profit earned by/loss from each segment without allocation of central administration costs such as directors' salaries, investment income and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment. Taxation charge / (credit) is not allocated to a reportable segment.

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.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the income statement.

All assets are allocated to reportable segments other than tax recoverable and corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

All liabilities are allocated to reportable segments other than current and deferred tax liabilities and corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

12. SEGMENT REPORTING (continued)

a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and performance assessment for the year ended 31 December 2010 and 2009 is set out below.

	Manufacturing and selling of medicine products		R & D service		Total	
For the year ended 31 December	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Segment revenue						
Revenue from external customers	**35,608**	2,140	**2,648**	3,136	**38,256**	5,276
Inter-segment revenue	**—**	—	**—**	(1,580)	**—**	(1,580)
Reportable segment	**35,608**	2,140	**2,648**	1,556	**38,256**	3,696
Reportable segment loss (before taxation)	**(1,419)**	(16,803)	**(27,149)**	(199)	**(28,568)**	(17,002)
Interest revenue	**208**	64	**155**	—	**363**	64
Interest expenses	**463**	11,663	**14,867**	—	**15,330**	11,663
Depreciation and amortisation						
-Property, plant and equipment	**1,032**	7,736	**7,335**	537	**8,367**	8,273
-Prepaid lease payment	**130**	421	**468**	—	**598**	421
-Intangible assets	**372**	1,789	**140**	—	**512**	1,789
(Reversal)/written down of inventory	**149**	35	**(116)**	—	**33**	35
Impairment of property, plant and equipment	**—**	1,800	**11,151**	—	**11,151**	1,800
Impairment of						
-trade receivables	**689**	—	**—**	—	**689**	—
-other receivables	**83**	259	**5**	—	**88**	259
Reversal of impairment allowance of other receivables	**(69)**	—	**—**	—	**(69)**	—
Income tax expense	**(131)**	—	**—**	—	**(131)**	—
Reportable segment assets	**564,240**	341,605	**419,826**	3,000	**984,066**	344,605
Additions to non-current assets (other than financial instruments and deferred tax assets)	**1,595**	46,290	**70,131**	2,123	**71,726**	48,413
Reportable segment liabilities	**206,281**	309,638	**275,733**	—	**482,014**	309,638

12. SEGMENT REPORTING (continued)

a) Segment results, assets and liabilities (continued)

The Group's customer base is diversified and no 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 RMB536,000 and RMB1,053,000 respectively. Details of concentrations of credit risk arising from this customer and set out in note 31(a).

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

	2010	2009
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**38,256**	5,276
Elimination of inter-segment revenue	**—**	(1,580)
Consolidated turnover	**38,256**	3,696
Loss		
Reportable segment loss	**(28,568)**	(17,002)
Elimination of inter-segment profit	**—**	—
Reportable segment loss derived from the Group's external customers	**(28,568)**	(17,002)
Other revenue and other net income	**37,220**	7,056
Depreciation and amortisaton	**(9,477)**	(10,483)
Finance costs	**(15,330)**	(11,663)
Impairment losses on property, plant and equipment	**(11,151)**	(1,800)
Unallocated head office and corporate expense	**(3,206)**	(3,584)
Consolidated loss before taxation	**(30,512)**	(37,476)

12. SEGMENT REPORTING (continued)

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

	2010 RMB'000	2009 RMB'000
Assets		
Reportable segment assets	**984,066**	344,605
Elimination of inter-segment receivables	**(324)**	(1,905)
	983,742	342,700
Unallocated head office and corporate assets	**60**	—
Deferred tax assets	**1,898**	726
Consolidated total assets	**985,700**	343,426
Liabilities		
Reportable segment liabilities	**482,014**	309,638
Elimination of inter-segment payables	**(324)**	(1,905)
	481,690	307,733
Tax payable	**7,846**	2,342
Deferred tax liabilities	**40,296**	—
Unallocated head office and corporate liabilities	**—**	—
Consolidated total liabilities	**529,832**	310,075

c) Geographic Information

The Group's turnover and results from operations mainly derived from activities in the PRC. The principal assets of the Group were located in the PRC during the year. Accordingly, no analysis by geographical segment is provided.

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 2010	85,785	71,504	1,452	4,342	40,528	203,611
Additions	—	1,235	267	1,398	72,726	75,626
Additions upon acquisition of subsidiaries	60,000	47,060	1,735	3,055	—	111,850
Disposals	—	(4,744)	(148)	(111)	—	(5,003)
Partial disposals of the jointly controlled entity	(10,518)	(983)	(97)	(287)	(13,334)	(25,219)
Transfer in/(out)	—	4,455	—	—	(4,455)	—
At 31 December 2010	135,267	118,527	3,209	8,397	95,465	360,865
Accumulated depreciation and impairment						
At 1 January 2010	(225)	(14,426)	(792)	(1,324)	(1,800)	(18,567)
Charge for the year	(3,293)	(4,155)	(184)	(735)	—	(8,367)
Partial disposals of the jointly controlled entity	197	36	7	21	270	531
Impairment	—	(1,771)	—	(64)	(9,316)	(11,151)
Written back on disposals	—	3,520	27	39	—	3,586
At 31 December 2010	(3,321)	(16,796)	(942)	(2,063)	(10,846)	(33,968)
Carrying amount						
At 31 December 2010	131,946	101,731	2,267	6,334	84,619	326,897

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 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 the 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 the 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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

a) The Group (continued)

i) Property, plant and equipments with fair value RMB111,850,000 were acquired on 14 December 2010 through the acquisition of Neptunus Fuyao. The fair values of these property, plant and equipments were assessed based on depreciated replacement method and the market data approach by reference to a valuation performed by an independent professional valuer – Ascent Partners Transaction Service Limited, who have among their staff, fellow members of the Hong Kong Institute of Surveyors and with experience in the valuation of similar assets in the relevant industry.

ii) A number of construction projects and plant and equipment were replaced by new construction projects and new plant and equipment during the year. The Group assessed the recoverable amount of these assets and as a result, the carrying amount of the property, plant and equipment was written down by approximately RMB 11,151,000. The Group assessed the recoverable amount of property, plant and equipment based on depreciated replacement cost method and the market data approach by reference to a valuation performed by an independent professional valuer - Ascent Partners Transaction Service Limited, who have among their staff, fellow members of the Hong Kong Institute of Surveyors and with experience in the valuation of similar assets in the relevant industry.

iii) A number of construction projects were replaced by new construction projects in 2009. The Group assessed the recoverable amount of these 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 and the market data approach by reference to a valuation performed by an independent professional valuer – RHL Apprisal Limited, who has among their staff, fellow members of the Hong Kong Institute of Surveyors and with experience in the valuation of similar assets in the relevant industry.

iv) As at 31 December 2010, certain of the Group's buildings with a carrying amount of approximately RMB59,961,000 were pledged to secure the Group's bank loans facilities of RMB63,000,000 and RMB57,000,000 of the facilities were utilised (Note 24).

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 2010	—	34,804	942	2,102	4,825	42,673
Additions	—	2	—	32	463	497
Disposals	—	(4,744)	—	(108)	—	(4,852)
Transfer in/(out)	—	4,454	—	—	(4,454)	—
At 31 December 2010	—	34,516	942	2,026	834	38,318
Accumulated depreciation and impairment						
At 1 January 2010	—	(14,379)	(785)	(1,305)	—	(16,469)
Charge for the year	—	(3,089)	(54)	(235)	—	(3,378)
Written back on disposals	—	3,520	—	42	—	3,562
Impairment	—	—	—	—	(834)	(834)
At 31 December 2010	—	(13,948)	(839)	(1,498)	(834)	(17,119)
Carrying amount						
At 31 December 2010	—	20,568	103	528	—	21,199

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 2009	129,208	35,304	2,466	8,834	100,304	276,116
Additions	—	2,160	—	248	18,313	20,721
Disposals	—	(20)	—	(16)	—	(36)
Effect on proportionate consolidation of 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 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

* The Company contributed certain property, plant and equipment to its jointly controlled entity as capital contribution in 2009. (Note 17)

i) A number of construction projects ceased during the year. The Company assessed the recoverable amount of those assets and, as a result, the carrying amount of the construction-in-progress was written down by RMB834,000.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

		The Group		The Company	
	note	**2010**	2009	**2010**	2009
		RMB'000	RMB'000	**RMB'000**	RMB'000
Outside Hong Kong					
Medium-term leases		**222,614**	108,546	**—**	—
Representing					
Buildings carried at cost		**131,946**	85,560	**—**	—
Prepaid lease payments	14	**90,668**	22,986	**—**	—
Medium-term leases		**222,614**	108,546	**—**	—

14. PREPAID LEASE PAYMENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At cost				
At 1 January	**23,018**	9,037	**—**	9,037
Additions	**—**	23,417	**—**	20,647
Additions upon acquisition of subsidiaries	**72,000**	—	**—**	—
Effect on proportionate consolidation of a jointly controlled entity *	**—**	(9,436)	**—**	(29,684)
Partial disposal of a jointly controlled entity	**(3,749)**	—	**—**	—
At 31 December	**91,269**	23,018	**—**	—
Accumulated depreciation and amortisation				
At 1 January	**(32)**	(603)	**—**	(603)
Charge for the year	**(598)**	(421)	**—**	(389)
Partial disposals of a jointly controlled entity	**29**	—	**—**	—
Effect on proportionate consolidation of a jointly controlled entity *	**—**	992	**—**	992
At 31 December	**(601)**	(32)	**—**	—
Carrying amount				
At 31 December	**90,668**	22,986	**—**	—

14. PREPAID LEASE PAYMENTS (continued)

All the prepaid lease payments represent interest in leasehold land situated in the PRC under medium term leases which were amortised over the lease term of 50 years on a straight-line basis.

i) Prepaid lease payments with fair value of RMB72,000,000 was acquired on 14 December 2010 through the acquisition of Neptunus Fuyao. The fair value of the prepaid lease payments was assessed based on direct comparison approach by reference to a valuation performed by an independent professional valuer – Ascent Partners Transaction Service Limited, who have among their staff, fellow members of the Hong Kong Institute of Surveyors and with experience in the valuation of similar assets in the relevant industry.

ii) At 31 December 2010, the interest in prepaid lease payments with a carrying amount of approximately RMB71,925,000 was pledged to secure the Group's bank loans facilities of RMB63,000,000 and RMB57,000,000 of the facilities were utilised (Note 24).

* 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 in 2009 (Note17).

15. INTANGIBLE ASSETS

a) The Group

	Computer software RMB'000	Trademarks RMB'000	Anesthetic drug production and selling rights RMB'000	Trade name RMB'000	Customer list RMB'000	Total RMB'000
Cost						
At 1 January 2010	356	75	—	—	—	431
Additions upon acquisition of subsidiaries	—	—	53,143	46,483	39,502	139,128
At 31 December 2010	356	75	53,143	46,483	39,502	139,559
Accumulated amortisation						
At 1 January 2010	**(310)**	**(42)**	**—**	**—**	**—**	**(352)**
Charge for the year	**(34)**	**(8)**	**—**	**—**	**(470)**	**(512)**
At 31 December 2010	**(344)**	**(50)**	**—**	**—**	**(470)**	**(864)**
Carrying amount						
At 31 December 2010	**12**	**25**	**53,143**	**46,483**	**39,032**	**138,695**

15. INTANGIBLE ASSETS (continued)

a) The Group (continued)

	Technical know-how Internal development RMB'000	Technical know-how Acquired RMB'000	Technical know-how Sub-total RMB'000	Computer software RMB'000	Trademarks RMB'000	Anesthetic drug production and selling rights RMB'000	Trade name RMB'000	Customer list RMB'000	Total RMB'000
Cost									
At 1 January 2009	24,949	19,443	44,392	356	75	—	—	—	44,823
Additions through internal development	457	—	457	—	—	—	—	—	457
Effect on proportionate consolidation of a jointly controlled entity *	(25,406)	(19,443)	(44,849)	—	—	—	—	—	(44,849)
At 31 December 2009	—	—	—	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

15. INTANGIBLE ASSETS (continued)

b) The Company

	Technical know-how					
	Internal Developed RMB'000	Acquired RMB'000	Sub-total RMB'000	Computer software RMB'000	Trademarks RMB'000	Total RMB'000
Cost						
At 1 January 2010	–	–	–	356	75	431
Additions through internal development	–	–	–	–	–	–
Acquired from third parties	–	–	–	–	–	–
At 31 December 2010	–	–	–	356	75	431
Accumulated amortisation						
At 1 January 2010	–	–	–	(310)	(42)	(352)
Charge for the year	–	–	–	(34)	(8)	(42)
At 31 December 2010	–	–	–	(344)	(50)	(394)
Carrying amount						
At 31 December 2010	–	–	–	12	25	37

15. INTANGIBLE ASSETS (continued)

b) The Company (continued)

	Technical know-how					
	Internal Developed RMB'000	Acquired RMB'000	Sub-total RMB'000	Computer software RMB'000	Trademarks RMB'000	Total RMB'000
Cost						
At 1 January 2009	24,949	19,443	44,392	356	75	44,823
Additions through internal development	457	—	457	—	—	457
Effect on proportionate consolidation of a jointly controlled entity *	(25,406)	(19,443)	(44,849)	—	—	(44,849)
At 31 December 2009	—	—	—	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

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

* The Company contributed the intangible assets to its jointly controlled entity as part of its capital contribution in 2009 (Note 17).

15. INTANGIBLE ASSETS (continued)

The anesthetic drug production & selling right, trade name and customer list are intangible assets acquired on 14 December 2010 through the acquisition of Neptunus Fuyao. The fair values of these intangible assets were assessed based on income approach by reference to a valuation carried out by an independent professional valuer, Ascent Partners Transaction Service Limited, who have among their staff, fellow members of the Hong Kong Institute of Surveyors and with experience in the valuation of similar assets in the relevant industry.

Anesthetic drug production & selling right represents the fair value of the rights in respect of the production and selling specific anesthetic drug in PRC.

The fair value of Anesthetic drug production & selling right as at the acquisition date was determined under income approach using the financial projection with discount rate of 21%. The anesthetic drug production & selling right has indefinite useful life.

The fair value of the trade name at the date of business combination was measured using the general rule of thumb for royalty rate on 5% of sales. The trade name has indefinite useful life.

The Anesthetic drug production & selling right, and trade name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows to the Group indefinitely. It is tested for impairment annually and whatever there is an indication that it may have been impaired.

The customer list has a finite useful life and is amortised on a straight-line basis over 10 years. The useful life of the customer list is determined with reference to the estimated future revenue from the customer list which is based on historical information. The management is of the view that the future economic benefits that can be derived from the customer list beyond the 10-year period are insignificant.

The fair value of the customer list at the date of business combination was measured using a form of the excess earnings method under the income approach. This calculation is based on the present value of the incremental after-tax cash flows attributable to the customer list and a discount rate of 21%. The annual cash flow is calculated by reference to the latest applicable annual revenue from existing customers and has been extrapolated using an averaged 14% growth rate. The averaged 14% growth rate is based on the relevant industry growth and management forecasts and does not exceed the average long-term growth rate for the relevant industry. At the date of the business combination, the fair value of the customer list amounted to RMB39,502,000.

16. INTEREST IN SUBSIDIARIES

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares at cost	**446,280**	1,040
Less: impairment loss	**(1,040)**	(1,040)
	445,240	—

Amount due from subsidiaries are unsecured, interest-free and are not expected to be recovered within one year.

During the year 2009, the Hong Kong 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 Hong Kong subsidiary of approximately RMB311,000 were assessed to be fully impaired. After considering the poor operating performance of the Hong Kong subsidiary, the directors of the Company are of the opinion that the impairment loss should not be reversed.

The following list contains the particulars of the subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Ascendent Bio-Technology Company Limited 艾斯特生物科技有限公司	Hong Kong	HK$1	100%	100%	—	Dormant
Fuzhou Neptunus Fuyao Pharmaceutical Company Limited* ("Neptunus Fuyao") 福州海王福藥製藥有限公司*	PRC	RMB30,000,000	80%	80%	—	Production and sales of medicine

16. INTEREST IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
Fuzhou Neptunus Jinxiang Chinese Pharmaceutical Co., Ltd ("Fuzhou Jinxiang")* 福州海王金象中藥製藥有限公司	PRC	RMB10,000,000	76%	—	95%	Production and sales of medicine
Fuzhou Fuyao Medical Co., Ltd ("Fuzhou Fuyao")* 福州福藥醫藥有限公司	PRC	RMB30,000,000	80%	—	100%	Production and sales of medicine
Taizhou Neptunus Bio-technique Company Limited ("Taizhou Neptunus")* 泰州海王生物科技有限公司	PRC	RMB1,000,000	80%	80%	—	Inactive

* These companies are registered under the laws of the PRC as a limited liability company

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Company 2010 RMB'000	The Company 2009 RMB'000
Unlisted shares at cost	**259,806**	305,654
Less: impairment loss	**(19,518)**	(7,000)
	240,288	298,654

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

Name of joint venture	From of business structure	Place of incorporation and operation	Particulars of registered capital	Proportion of ownership interest: Group's effective interest	Held by the company	Principal activity
GSK - Neptunus	Sino-foreign owned enterprise	PRC	USD78,330,000	51%	51%	Manufacturing and selling of medicines

17. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

Notes:

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 GSK-Neptunus, the board of directors of 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.

iii) The registered capital of the GSK-Neptunus is US$78,330,000 (approximately RMB535,000,000). In 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 GSK-Neptunus in return for a 60% stake in 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 a 40% stake in GSK-Neptunus.

    During the year 2010, GSK made further cash contribution of US$17,510,000 (approximately RMB120,000,000) to GSK-Neptunus and completed the cash contribution.

iv) By the 5th anniversary of the establishment date, upon GSK Pte's request, the Company and GSK Pte shall discuss in good faith and the Company shall sell its equity interest of GSK-Neptunus to GSK Pte in such percentage as necessary for GSK Pte's equity interests to reach a minimun of fifty-one percent and a maximum of sixty percent of the registered capital of GSK-Neptunus. When GSK-Neptunus has sold on an accumulative basis three million doses of pre-pandemic flu vaccines it has produced, or has sold, in any once fiscal year, ten million doses of all seasonal flu vaccines it has produced, GSK Pte and the Company shall immediately discuss and agree for GSK to further purchase from the Company the equity interests of GSK-Neptunus. The equity interests of GSK-Neptunus to be transferred under these circumstances shall be transferred at the fair market value. Any failure on the part of the Company to comply with the provisions in relation to GSK Pte's right to purchase further equity interests of GSK-Neptunus from the Company will constitute an event of default under the JV Contract and will allow GSK Pte to terminate the JV contract and claim damages of US$2million from the Company.

v) Assets contributed by the Company into GSK-Neptunus as capital contribution in 2009 include property, plant and equipment (Note 13), prepaid lease payments (Note 14), and intangible assets (Note 15).

vi) During the year, the carrying amount of GSK-Neptunus had been reduced by approximately RMB12,518,000 (2009: RMB7,000,000) through the recognition of impairment losses, after considering the operating performance of GSK-Neptunus, the directors are of the opinion that impairment losses of approximately RMB12,518,000 (2009 RMB7,000,000) should be recognised.

vii) On 12 August 2010, the Company has sold and GSK has purchased a 9% equity interests of GSK-Neptunus pursuant to the joint venture contract at a cash consideration of USD10,574,550 which was equivalent to 150% of the original par value of the GSK-Neptunus' equity interest as at 31 December 2009.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

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

	2010 RMB'000	2009 RMB'000
Assets		
Non-current assets	**221,490**	196,696
Current assets	**25,159**	123,615
	246,649	320,311
Liabilities		
Non-current liabilities	**—**	—
Current liabilities	**(6,361)**	(6,865)
	(6,361)	(6,865)
Net assets	**240,288**	313,446
Income	**60**	78
Expenses	**(25,622)**	(7,523)
Loss after income tax	**(25,562)**	(7,445)
Proportionate share of in the jointly controlled entity's capital commitments	**20,389**	32,746

The jointly controlled entity did not have any operating lease commitments as at 31 December 2010 and 31 December 2009.

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 liabilities as at 31 December 2010 and 31 December 2009.

18. AVAILABLE-FOR-SALE INVESTMENTS

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Unlisted securities		
– Equity securities in the PRC, at cost	**60**	—

It relates to an investment in 深圳市生醫聯盟生物科技有限公司, a company incorporated in the PRC. As at 31 December 2010, the Group and the Company held 5% equity interest in 深圳市生醫聯盟生物科技有限公司 . The equity interest does not have a quoted market price or, an active market and whose fair value cannot be reliably measured.

19. INVENTORIES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**38,418**	117	**—**	99
Work in progress	**12,799**	—	**—**	—
Finished goods	**38,217**	—	**—**	—
	89,434	117	**—**	99

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

		The Group		The Company	
	Note	**2010**	2009	**2010**	2009
		RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount of inventories sold		**19,516**	1,384	**—**	1,384
Write down of inventories	(i)	**149**	35	**—**	35
Reversal of write-down inventories	(ii)	**116**	—	**116**	—

i) During the year, obsolete inventories of approximately RMB149,000 (2009: RMB 35,000) were identified and recognised in the consolidated income statement.

ii) During the year, inventories with a previous carrying amount of approximately RMB116,000 (2009: RMB Nil) and which were fully impaired were reversed because of the re-use of these inventories.

20. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
	Note	**2010**	2009	**2010**	2009
		RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables		**58,307**	308	**308**	308
Less: allowance for doubtful debts		**(982)**	(308)	**(308)**	(308)
		57,325	—	**—**	—
Amounts due from subsidiaries	(i), 32(d)	**—**	—	**67**	—
Amounts due from fellow subsidiaries	(i), 32(d)	**1,396**	—	**1,363**	—
Amount due from a jointly controlled entity	(i), 32(d)	**296**	1,063	**604**	2,659
Amount due from a director	(i), 32(d)	**—**	44	**—**	44
Amounts due from related companies	(i), 32(d)	**546**	71,722	**—**	10
Amount due from immediate parent company	(i), 32(d)	**10,254**	—	**—**	—
Other receivables		**9,300**	125	**341**	60
Loans and receivables		**79,117**	72,954	**2,375**	2,773
Prepayments and deposits		**5,091**	452	**434**	437
		84,208	73,406	**2,809**	3,210

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

Note:

i) The amounts are unsecured, interest-free and repayable within one year.

20. TRADE AND OTHER RECEIVABLES (continued)

a) Ageing analysis

An ageing analysis of trade receivables net of allowance for impairment loss of approximately RMB982,000 (2009: RMB308,000) as at the end of the reporting period is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**43,204**	—	**—**	—
More than 3 months but less than 12 months	**13,315**	—	**—**	—
Over 12 months	**806**	—	**—**	—
	57,325	—	**—**	—

Trade receivables are usually due within 90 days from the date of billing. Further details on the Group's credit policy is set out in note 31(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(j)(i)).

Movements in the allowance for impairment loss

		The Group		The Company	
	Note	**2010**	2009	**2010**	2009
		RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January		**308**	726	**308**	726
Impairment loss recognised	(i)	**689**	—	**—**	—
Reversal of impairment allowance	(ii)	**—**	(208)	**—**	(208)
Uncollectible amounts written off	(iii)	**(15)**	(210)	**—**	(210)
At 31 December		**982**	308	**308**	308

20. TRADE AND OTHER RECEIVABLES (continued)

b) Impairment of trade receivables (continued)

Notes:

i) As at 31 December 2010, trade receivables of the Group amounting to RMB689,000 (2009: Nil) were individually determined to be impaired and allowance had been made. These individually impaired receivables were outstanding for over 1 year 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 providing debt collection services from certain long-outstanding trade receivables. The third party succeeded in recover these long-outstanding debts for the Company in 2009 and the previous allowance was decreased.

iii) RMB15,000 (2009: RMB210,000) of the trade receivables previously considered as impaired and provided for was written off in 2010. 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 and bills receivables that are not impaired

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**46,370**	—	**—**	—
3 to 12 months past due	**10,149**	—	**—**	—
Over 12 months past due	**806**	—	**—**	—
	57,325	—	**—**	—

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.

21. PLEDGED BANK DEPOSITS

The pledged bank deposits are bank deposits pledged to a bank to secure credit facilities granted to the Group. The bank deposits that have been pledged represent margin deposits to secure bills and other trade finance facilities granted to the Group from time to time and are therefore classified as current assets.

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank deposits with original maturities within three months	**7,000**	34,826	**7,000**	—
Cash at bank and on hand	**240,056**	20,535	**150,372**	3,479
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**247,056**	55,361	**157,372**	3,479

Deposit with banks carry interest at market rates which range from 0.36% to 2.75%(2009: 0.36% to 2.25%)

23. TRADE AND OTHER PAYABLES

		The Group		The Company	
	Note	**2010**	2009	**2010**	2009
		RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables		**57,524**	693	**667**	693
Receipts in advances		**10,750**	1,705	**1,705**	1,705
Other payables and accruals		**40,396**	11,976	**7,369**	7,811
Amount due to a related company	(i), 32(d)	**4,201**	1,105	**—**	—
Amount due to fellow subsidiaries	(i), 32(d)	**596**	482	**536**	482
Amount due to the immediate parent company	(ii), 32(d)	**135,380**	71,953	**108,870**	71,953
Financial liabilities measured at amortised cost		**248,847**	87,914	**119,147**	82,644

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**49,798**	—	**—**	—
4 to 6 months	**2,737**	—	**—**	—
7 to 12 months	**1,298**	—	**—**	—
Over 1 year	**3,691**	693	**667**	693
	57,524	693	**667**	693

Note:

i) The amounts are unsecured, interest-free and repayable within one year.

ii) The amounts are unsecured, interest bearing range from 5.31% to 5.81%, and repayable within one year.

24. INTEREST-BEARING BANK BORROWINGS

	Note	Effective interest rate	Maturity	The Group 2010 RMB'000	The Group 2009 RMB'000	The Company 2010 RMB'000	The Company 2009 RMB'000
Short-term bank loans - secured	(a)	4.67% - 5.31%	2011	**82,000**	30,000	**—**	30,000
Current portion of:							
Long-term bank loans - secured	(b)	3.76% - 5.49%	2014	**24,000**	20,000	**24,000**	20,000
Non-current portion of:							
Long-term bank loans - secured	(b)	3.76% - 5.49%	2014	**62,000**	86,000	**62,000**	86,000
				168,000	136,000	**86,000**	136,000

	The Group 2010 RMB'000	The Group 2009 RMB'000	The Company 2010 RMB'000	The Company 2009 RMB'000
Within 1 year or on demand	**106,000**	50,000	**24,000**	50,000
After 1 year but within 2 years	**26,000**	24,000	**26,000**	24,000
After 2 years but within 5 years	**36,000**	62,000	**36,000**	62,000
After 5 years	**—**	—	**—**	—
	62,000	86,000	**62,000**	86,000
	168,000	136,000	**86,000**	136,000

The interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

24. INTEREST-BEARING BANK BORROWINGS (continued)

a) In 2009, Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering") the immediate parent company and Shenzhen Neptunus Pharmaceutical Co., Ltd. ("Neptunus Pharmaceutical") provided guarantees and pledged their respective properties as security for the Company's short-term bank loan of RMB30,000,000. During the year, the Company repaid the short-term loan and the guarantees from Neptunus Bio-engineering and Neptunus Pharmaceutical and their respective properties were released.

During the year, the Group's short-term bank loans of RMB57,000,000 were secured by:

i) the pledge of leasehold land held by the subsidiary with a carrying amount of approximately RMB71,925,000; and

ii) the pledge of buildings held by the subsidiary with a carrying amount of approximately RMB59,961,000.

During the year, the Group's short-term bank loans of RMB25,000,000 were secured by:

i) the corporate guarantee provided by the Company's immediate parent company (Note 32(b) (xix))

b) During the year the Group's bank loans of RMB86,000,000 (2009: RMB106,000,000) utilised were secured by:

i) the pledge of 639,000,000 domestic shares of the Company held by Neptunus Bio-engineering (Note 32(b) (xx)), the immediate parent Company;

ii) the pledge of 47,671,000 domestic shares of the Company held by Mr. Chai Xiang Dong, an executive director of the Company (Note 32(b) (xx)); and

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

iv) the Company's immediate parent company and Neptunus Group has given corporate guarantees for the above bank loan. (Note 32(b) (xx))

25. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Provision for the year				
PRC Enterprise Income tax	**(366)**	—	**—**	—
Arising from acquisition of subsidiaries	**5,870**	—	**—**	—
Tax paid for the year	**—**	—	**—**	—
Balance of PRC Enterprise Income tax provision relating to prior year	**2,342**	2,342	**2,342**	2,342
	7,846	2,342	**2,342**	2,342

b) Deferred tax assets and liabilities recognised:

The Group

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

	Fair value change of non-current assets	**Others**	**Total**
	RMB'000	RMB'000	RMB'000
Deferred tax arising from			
At 1 January 2009	—	(726)	(726)
Credited to profit or loss	—	—	—
At 31 December 2009 and 1 January 2010	—	(726)	(726)
Arising from acquisition of subsidiaries	40,296	(1,407)	38,889
Credited to profit or loss	—	235	235
At 31 December 2010	40,296	(1,898)	38,398

25. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

b) Deferred tax assets and liabilities recognised: (continued)

The Group	**2010**	2009
	RMB'000	RMB'000
Net deferred tax assets recognised as the consolidated statement of financial position	**(1,898)**	(726)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**40,296**	—
	38,398	(726)

The Company	Others RMB'000
Deferred tax arising from	
At 1 January 2009	(726)
Credited to profit or loss	—
At 31 December 2009 and 1 January 2010	(726)
Credited to profit or loss	—
At 31 December 2010	(726)

c) Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of RMB93,850,000 (2009: RMB71,162,000) 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.

26. ENTRUSTED LOANS FROM THE IMMEDIATE PARENT COMPANY

The Group and the Company

The entrusted loans from the immediate parent company of which RMB48,000,000 and RMB30,000,000 are repayable on 5 April 2009 and 26 March 2009 respectively were unsecured and bear interest at 5.00% and 7.47% per annum (2009: 5.00% and 7.47% per annum). 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 to be extended to 5 April 2011 and 26 March 2011 respectively.

On 13 October 2010 the Company repaid the entrusted loan in the amount of RMB30,000,000.

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

27. DEFERRED REVENUE

a) The Group

	Subsidy A RMB'000 (Note a)	Subsidy B RMB'000 (Note b)	Subsidy C RMB'000 (Note c)	Subsidy D RMB'000 (Note d)	Subsidy E RMB'000 (Note e)	Subsidy F RMB'000 (Note f)	Subsidy G RMB'000 (Note g)	Subsidy H RMB'000 (Note h)	Subsidy I RMB'000 (Note i)	Subsidy J RMB'000 (Note j)	Total RMB'000
Cost											
At 1 January 2009	500	500	3,000	400	300	–	–	–	–	–	4,700
Additions	–	–	–	–	–	3,000	–	–	–	–	3,000
At 31 December 2009 and 1 January 2010	500	500	3,000	400	300	3,000	–	–	–	–	7,700
Additions	–	–	–	–	–	–	18,000	–	–	–	18,000
Addition upon acquisition of subsidiaries	–	–	–	–	–	–	–	450	370	100	920
At 31 December 2010	500	500	3,000	400	300	3,000	18,000	450	370	100	26,620
Accumulated amortisation											
At 1 January 2009	200	–	874	233	–	–	–	–	–	–	1,307
Released to income statement for the year	50	–	524	–	–	–	–	–	–	–	574
At 31 December 2009 and 1 January 2010	250	–	1,398	233	–	–	–	–	–	–	1,881
Released to income statement for the year	50	–	364	–	300	1,054	5,758	–	370	–	7,896
At 31 December 2010	300	–	1,762	233	300	1,054	5,758	–	370	–	9,777
Carrying Amount											
At 31 December 2010	200	500	1,238	167	–	1,946	12,242	450	–	100	16,843
At 31 December 2009	250	500	1,602	167	300	3,000	–	–	–	–	5,819

27. DEFERRED REVENUE (continued)

b) The Company

	Subsidy A RMB'000 (Note a)	Subsidy B RMB'000 (Note b)	Subsidy C RMB'000 (Note c)	Subsidy D RMB'000 (Note d)	Subsidy E RMB'000 (Note e)	Subsidy F RMB'000 (Note f)	Subsidy G RMB'000 (Note g)	Total RMB'000
Cost								
At 1 January 2009	500	500	3,000	400	300	—	—	4,700
Additions	—	—	—	—	—	3,000	—	3,000
At 31 December 2009 and 1 January 2010	500	500	3,000	400	300	3,000	—	7,700
Additions	—	—	—	—	—	—	18,000	18,000
At 31 December 2010	500	500	3,000	400	300	3,000	18,000	25,700
Accumulated amortisation								
At 1 January 2009	200	—	874	233	—	—	—	1,307
Released to income statement for the year	50	—	524	—	—	—	—	574
At 31 December 2009 and 1 January 2010	250	—	1,398	233	—	—	—	1,881
Released to income statement for the year	50	—	364	—	300	1,054	5,759	7,527
At 31 December 2010	300	—	1,762	233	300	1,054	5,759	9,408
Carrying Amount								
At 31 December 2010	200	500	1,238	167	—	1,946	12,241	16,292
At 31 December 2009	250	500	1,602	167	300	3,000	—	5,819

27. DEFERRED REVENUE (continued)

Notes:

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. The amount of RMB50,000 (2009: RMB50,000) was recognised 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 2010 and 2009.

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 subsidise 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 the amount of approximately RMB364,000 (2009: RMB524,000) 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 2010 and 2009.

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. The amount of RMB 300,000 was recognised as income during the year as the project was completed.

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. The amount of RMB 1,054,000 was recognised as income to match with the research and development expenses of H1N1 incurred during the year.

g) In June 2010, a subsidy of RMB18,000,000 was granted by the People's Government of Shenzhen Municipality pursuant to the preferential treatments given to biological industry under the policies of the People's Government of Shenzhen Municipality for the purpose of supporting the research and development. The amount of RMB 5,758,000 was recognised as income during the year to match with the research and development expenses incurred during the year.

h) In December 2008, a subsidy of RMB450,000 was granted by 福州市晉安區科學技術局 and 福州市財政局 for financing the research and development of 米沙坦氫氯噻嗪 The subsidy is not required to be repaid to the authorities. Since the Group has not yet obtained the approval for the project, the subsidy was not recognised as income for the year.

27. DEFERRED REVENUE (continued)

Notes: (continued)

i) In December 2008, a subsidy of RMB370,000 was granted by 福州市財政局 and 福州市科學技術局 for financing the research and development of 米沙坦原料藥及片劑 The subsidy is not required to be repaid to the authorities as the Group obtained the approval for the project. The amount of RMB 370,000 was recognised as income to match with the research and development expenses incurred during the year.

j) In September 2009, a subsidy of RMB100,000 was granted by 福州市晉安區科學技術局 for financing the research and development of 吉奧片 . The subsidy is not required to be repaid to the authorities. Since the Group has not yet obtained the approval for the project, the subsidy was not recognized as income for the year.

The directors consider that, except for the subsidies mentioned in note 4 and note 27, there were no other forms of government assistance from which the Group has directly benefited.

28. SHARE CAPITAL

	Note	**2010 Number of shares '000**	2009 Number of shares '000	**2010 RMB'000**	2009 RMB'000
Registered, issued and fully paid:					
Domestic shares of RMB0.10 each	(i)	**1,252,000**	710,000	**125,200**	71,000
H shares of RMB0.10 each	(ii)	**426,000**	236,670	**42,600**	23,667
		1,678,000	946,670	**167,800**	94,667
Registered, issued and fully paid:					
At 1 January		**946,670**	946,670	**94,667**	94,667
Placing and subscription of new H shares	(iii)	**189,330**	—	**18,933**	—
Issue of new shares for acquisition of subsidiaries	(iv)	**542,000**	—	**54,200**	—
At 31 December		**1,678,000**	946,670	**167,800**	94,667

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.

28. SHARE CAPITAL (continued)

Notes:

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

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

iii) On 18 October 2010, the Company entered into a placing agreement and agreed to place through the placing agent a maximum of 189,330,000 new H shares at a price of HK$0.89 per placing share. The Company applied the net proceeds from the placing to (i) repay a portion of the Company's outstanding indebtedness; (ii) provide working capital to finance the operation of the Company and to develop the R&D Business; and (iii) provide working capital for the GSK-Neptunus to develop its vaccine business.

On 3 November 2010, the Company completed the issue and allotment of 189,330,000 new H shares and received the net proceeds of approximately RMB 141,614,000.

iv) On 8 December 2010, the Company issued 542,000,000 consideration shares to Neptunus Bio-engineering at RMB0.80 per consideration shares (the fair value of the shares at the completion date on 14 December 2010 was RMB0.82 per share) with the par value of RMB0.10 each. The consideration shares were for the settlement of the consideration for the acquisition of Neptunus Fuyao. The transaction is completed on 14 December 2010. The consideration shares were allotted to immediate parent company on 2 March 2011.

29. RESERVES

a) The Group

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 RMB'000	Statutory reserve fund RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	41,923	3,330	(68,084)	(22,831)
Loss for the year	—	—	(44,190)	(44,190)
At 31 December 2009 and 1 January 2010	41,923	3,330	(112,274)	(67,021)
Placing and subscription of new H shares	126,312	—	—	126,312
Issue of new shares for acquisition of subsidiaries	390,240	—	—	390,240
Share issued expenses	(3,631)	—	—	(3,631)
Loss for the year	—	—	(17,750)	(17,750)
At 31 December 2010	554,844	3,330	(130,024)	428,150

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 issue of shares at prices in excess of their par value less share issue expenses.

d) Capital reserve

Capital reserve represents the different between the total amount of the fair value of shares issued to the immediate holding company and the amount of the net assets value acquired during the acquisition of Neptunus Fuyao.

e) 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.

29. RESERVES (continued)

f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statement of a jointly controlled entity. The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

g) Distributability of reserves

At 31 December 2010, the Company had no distributable reserves (2009: Nil), while its accumulated losses, calculated in accordance with the Company's Articles of Association and relevant rules and regulations, amounted to RMB130,024,000 (2009: RMB112,274,000).

h) 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.

29. RESERVES (continued)

f) Capital management (continued)

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a gearing ratio within 30% to 70%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. The gearing ratio at 31 December 2010 and 2009 was as follows:

	Note	**2010**	2009
		RMB'000	RMB'000
Total borrowings			
Interest bearing financial assistance from immediate parent Company		**91,155**	—
Interest-bearing bank borrowings	24	**168,000**	136,000
Entrusted loans from the immediate parent company	26	**48,000**	`78,000
		307,155	214,000
Less: Cash and cash equivalents	22	**(247,056)**	(55,361)
Adjusted net debt		**60,099**	158,639
Total equity		**455,868**	33,351
Adjusted capital		**515,967**	191,990
Gearing ratio		**12%**	83%

As at 31 December 2010 and 2009, the gearing ratio of the Group was 12% and 83% respectively which has improved during the year. Neither the company nor its subsidiaries and jointly controlled entity are subject to externally imposed capital requirements.

30. CONTINGENT LIABILITY

At the end of the reporting period, neither the Group nor the Company had any significant contingent liability.

31. 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 and entrusted loans from the immediate parent company. 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 2010, 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 minimise 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 location 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 20.

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.

31. 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:

i) *The Group*

	2010							2009						
	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total contractual undiscount cast flow RMB'000	Carrying amount RMB'000	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Secured short-term bank loans														
Fixed rates	5.31%	5,145	–	–	–	5,145	5,000	5.31%	30,664	–	–	–	30,664	30,000
Secured bank loans														
Variable rates	4.75%-6.40%	108,114	29,205	37,794	–	175,113	163,000	3.7%-5.49%	24,950	26,812	63,979	–	115,741	106,000
Amount due to immediate parent company	5.81%	140,676	–	–	–	140,676	135,380	–	–	–	–	–	–	–
Entrusted loans from immediate parent company	5%	48,625	–	–	–	48,625	48,000	5%-7.47%	4,641	79,547	–	–	84,188	78,000
		302,560	29,205	37,794	–	369,559	351,380		60,255	106,359	63,979	–	230,593	214,000

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (continued)

b) Liquidity risk (continued)

ii) The Company

	2010							2009						
	Weighted average effective interest rate %	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total contractual undiscount cast flow RMB'000**	**Carrying amount RMB'000**	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Secured short-term bank loans														
Fixed rates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	5.31%	30,664	–	–	–	30,664	30,000
Secured bank loans														
Variable rates	**6.40%**	**28,800**	**29,205**	**37,794**	**–**	**95,799**	**86,000**	3.7%-5.49%	24,950	26,812	63,979	–	115,741	106,000
Amount due to immediate parent company	**5.81%**	**114,166**	**–**	**–**	**–**	**114,166**	**108,870**	–	–	–	–	–	–	–
Entrusted loans from immediate parent company	**5%**	**48,625**	**–**	**–**	**–**	**48,625**	**48,000**	5%-7.47%	4,641	79,547	–	–	84,188	78,000
		191,591	**29,205**	**37,794**	**–**	**258,590**	**242,870**		60,255	106,359	63,979	–	230,593	214,000

31. 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 2010, 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 RMB2,110,000 (2009: RMB2,140,000).

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 2009.

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.

32. 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 2010, the Group entered into certain continuing connected transactions.

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

Related party transactions with the immediate parent company

Name related parties	Relationship	Nature or transactions	Note	2010 RMB'000	2009 RMB'000	Outstanding balance 2010 RMB'000	Outstanding balance 2009 RMB'000
Neptunus Bio-engineering	Immediate parent company	Entrusted loans from immediate parent company	(i)	**48,000**	78,000	**48,000**	78,000
		Accrued interest for the entrusted loan		**3,706**	3,902	**3,706**	3,902
		Non interest bearing financial assistance		**—**	52,975	**—**	52,975
		Interest bearing financial assistance	(ii)	**91,155**	—	**91,155**	—
		Accrued interest for the interest bearing assistance		**4,711**	—	**4,711**	—
		Acquisition of 75% equity interest of Neptunus Fuyao	(iii)	**416,663**	—	**—**	—

32. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Notes:

i) Entrusted loans from the immediate parent company

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 shares 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 to be extended to 5 April 2011, 5 April 2011 and 26 March 2011 respectively.

On 13 October 2010, the Group repaid the entrusted loans in the amount of RMB30,000,000

ii) The financial assistance is unsecured, interest bearing range from 5.31% to 5.81%, and repayable on demand.

iii) On 16 July 2010, the Company entered into a sales and purchases agreement with Neptunus Bio-engineering for the acquisition of the 75% equity interest in Neptunus Fuyao for a consideration of approximately RMB416,663,000, which was fully settled by the issue and allotment of 508,125,000 consideration shares to Neptunus Bio-engineering at RMB0.8 per consideration shares (the fair value of the shares at the completion date in 14 November 2010 was RMB0.82 shares. (Note 33)

32. 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 related parties	Relationship	Nature or transactions	Note	2010 RNB'000	2009 RNB'000	Outstanding balance 2010 RNB'000	Outstanding balance 2009 RNB'000
Neptunus Pharmaceutical	Fellow subsidiary	Reimbursement for the use of plant and machinery	(iv), (v)	**–**	448	**–**	–
		Reimbursement of direct labour costs	(iv), (vi)	**–**	180	**–**	–
		Reimbursement of water, electricity and fuel costs	(iv), (vii)	**252**	435	**214**	214
		Management fees	(iv), (viii)	**10**	10	**–**	–
		Property management fees	(iv), (ix)	**60**	60	**–**	–
		R & D service income	(iv),(x)	**2,000**	502	**–**	–
		Acquisition of 5% equity interest of Neptunus Fuyao	(iv), (xiv)	**27,777**	–	**–**	–
		Disposal of plant and equipment	(iv),(xi)	**–**	–	**–**	–
Shenzhen Neptunus Tongai Pharmaceutical Co. Ltd ("Tongai Pharmaceutical")	Fellow subsidiary	Rental of office and factory premises	(iv), (xiii)	**268**	–	**268**	–

32. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Name related parties	Relationship	Nature or transactions	Note	2010 RNB'000	2009 RNB'000	Outstanding balance 2010 RNB'000	Outstanding balance 2009 RNB'000
Shenzhen Neptunus Changjian Pharmaceutical Co., Ltd. 深圳海王長建醫藥有限公司	Fellow subsidiary	Sales of goods	(iv), (xii)	**618**	—	**—**	—
Hangzhou Neptunus Bio-engineering Co., Ltd. 杭州海王生物工程有限公司	Fellow subsidiary	Processing income	(iv), (xii)	**50**	—	**50**	—
Zhejiang Neptunus Pharmaceutical Co., Ltd. 浙江海王醫藥有限公司	Fellow subsidiary	Sales of goods	(iv), (xii)	**29**	—	**29**	—

32. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Notes:

iv) 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.

v) 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 utilisation rates of the Group on those assets in 2009. During the year, the Group did not use the plant and machinery of Neptunus Pharmaceutical and no reimbursement incurred.

vi) 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 in 2009. During the year, the Group did not hire any labour from Neptunus Pharmaceutical and no such direct labour costs incurred.

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

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

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

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

xi) During the year, the Company disposed the plant and equipment with the carrying amount of approximately RMB 1,290,000 to Neptunus Pharmaceutical at nil consideration.

xii) The sales and processing income received were conducted in the normal course of business on the same terms as those charged to and contracted with other third party customers.

xiii) The rental of office and factory premises was charged at pre-agreed rates with reference to market prices. On 1 January 2010, Tongai Pharmaceutical leased office premises to the Company. The rental of RMB268,000 attributable to 2009 was waived by Tongai Pharmaceutical pursuant to an agreement dated 13 February 2009.

xiv) On 16 July 2010, the Company entered into a sales and purchases agreement for the acquisition of the 5% equity interest in Neptunus Fuyao for a consideration of approximately RMB27,777,000, which was fully settled by the issue and allotment of 33,875,000 consideration shares to Neptunus Bio-engineering at RMB0.8 per consideration shares (the fair value of the shares at the completion date or 14 December 2010 was RMB0.82 per share). (Note 33)

32. 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 related parties	Relationship	Nature or transactions	Note	2010 RMB'000	2009 RMB'000	Outstanding balance 2010 RMB'000	Outstanding balance 2009 RMB'000
GSK-Neptunus	A jointly controlled entity	R & D service income	(xv)	**527**	1,580	**—**	1,580
		Rental of plant and equipment	(xvi)	**—**	—	**—**	—

Notes:

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

xvi) 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 related parties	Relationship	Nature or transactions	Note	2010 RMB'000	2009 RMB'000	Outstanding balance 2010 RMB'000	Outstanding balance 2009 RMB'000
GlaxoSmithKline (China) Investment Co., Ltd ("GSK China")	Related company	Management services fees	(xvii)	**3,330**	225	**3,330**	225
Shenzhen Nepstar Pharmaceutical Co. Ltd. ("Nepstar Pharmaceutical") 深圳市海王星辰醫藥有限公司	Related Company	Sales of goods	(xviii)	**778**	—	**778**	—

Notes:

xvii) 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.

32. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

xviii) The director of the Company, Mr. Zhang Si Min is also an authorised representative of the related party. The income received were conducted in the normal course of business on the same terms as those charged to and constructed with other third party customers.

Guarantees

xix) During the year, Neptunus Bio-engineering provided a corporate guarantee to the extent of RMB111,000,000 (2009: RMB106,000,000) for the bank loan granted to the Group (Note 24).

xx) 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 Company's bank loan of RMB 86,000,000 (2009: RMB106,000,000) (Note 24).

c) Financing arrangements

	Amounts owed to related parties		**Related interest expenses**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Entrusted loans from the immediate parent company	**48,000**	78,000	**3,706**	3,902
Non interest bearing financial assistance	**—**	52,975	**—**	—
Interest bearing financial assistance	**91,155**	—	**4,711**	—

Details of the terms and conditions of the entrusted loans from the immediate parent company are disclosed in note 26.

The interest financial assistance is unsecured, interest bearing range from 5.31% to 5.81% and repayable on demand.

The immediate parent company of the Group agreed to provide two entrusted loans with a total amount of RMB48,000,000 (2009: RMB78,000,000). On 18 March 2010, the repayment dates of the entrusted loans in the amount of RMB48,000,000 were extended to 5 April 2011.

32. 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Entrusted loans from the immediate parent company	**—**	—	**48,000**	78,000
Amount due from/to the immediate parent company	**10,254**	—	**135,380**	71,953
Amount due from/to fellow subsidiaries:				
Neptunus Pharmaceutical	**1,363**	—	**60**	214
Tongai Pharmaceutical	**—**	—	**536**	268
浙江海王醫藥有限公司	**33**	—	**—**	—
	1,396	—	**596**	482
Amount due from a jointly controlled entity:				
GSK-Neptunus	**296**	1,063	**—**	—
Amount due from/to related companies:				
Shenzhen Nepstar Pharmaceutical Co. Ltd.	**546**	10	**458**	—
GSK	**—**	71,712	**—**	—
GSK China	**—**	—	**3,743**	1,105
	546	71,722	**4,201**	1,105
Amount due from a director:				
Chai Xiang Dong	**—**	44	**—**	—
	12,492	72,829	**188,177**	151,540

32. MATERIAL RELATED PARTY TRANSACTIONS (continued)

d) Outstanding balances with related parties (continued)

The maximum balance outstanding of the amount due from a director was Nil(2009: RMB44,000) during the year.

The balances with these related companies are unsecured, interest-free and repayable within one year.

	The Company			
	Amounts owed by related parties as at 31 December		Amounts owed to related parties as at 31 December	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Entrusted loans from the immediate parent company	**—**	—	**48,000**	78,000
Amount due to the immediate parent company:				
Neptunus Bio-engineering	**—**	—	**108,870**	71,953
Amount due from subsidiaries:				
Ascendent Bio-technology Company Limited	**13**	—	**—**	—
Taizhou Neptunus Bio-technigue Company Limited	**54**	—	**—**	—
	67	—	**—**	—
Amount due from/to fellow subsidiaries:				
Neptunus Pharmaceutical	**1,363**	—	**—**	214
Tongai Pharmaceutical	**—**	—	**536**	268
	1,363	—	**536**	482
Amount due from a jointly controlled entity:				
GSK-Neptunus	**604**	2,659	**—**	—
Amount due from a related company:				
Nepstar Pharmaceutical	**—**	10	**—**	—
Amount due from a director:				
Chai Xiang Dong	**—**	44	**—**	—
	2,034	2,713	**157,406**	150,435

32. 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 are as follows:

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

	2010	2009
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**3,122**	2,062
Retirement scheme contributions	**112**	73
	3,234	2,135

33. ACQUISITION OF SUBSIDIARIES

On 16 July 2010, the Company entered into a sale and purchase agreement with Neptunus Bio-engineering, the immediate parent company of the Company and Neptunus Pharmaceutical, a fellow subsidiary of the Company, for the acquisition of the 80% equity interest in Neptunus Fuyao and its subsidiaries ("Neptunus Fuyao Group") for a consideration of RMB444,440,000, which was fully settled by the issue and allotment of 542,000,000 consideration shares to Neptunus Bio-engineering and Neptunus Pharmaceutical at RMB0.8 per consideration shares (the fair value of the shares at the completion date in 14 December 2010 was RMB0.82 per share). The Group takes the view that Neptunus Fuyao Group has a great potential to develop in the medical industry under the current government policy and market circumstances and the acquisition will provide the Group with good business potential. The acquisition was completed on 14 December 2010. For the half month ended 31 December 2010, the acquired subsidiary contributed net loss of approximately RMB1,288,000 to the consolidated net loss of the Group for the year ended 31 December 2010. Had the acquisition been completed on 1 January 2010, total group revenue for the year would have been increased to approximately RMB476,485,000 and the profit for the year would have been increased to approximately RMB36,467,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results. Acquisition related costs amounting to approximately RMB2,349,000 have been excluded from the consideration transferred and have been recognized as an expenses in the current year.

The allocation of acquisition consideration on the Neptunus Fuyao as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

33. ACQUISITION OF SUBSIDIARIES (continued)

	Carrying amount RMB'000	Fair value change RMB'000	Allocation of acquisition consideration RMB'000
Property, plant and equipment	86,161	25,689	111,850
Prepaid land lease payment	26,771	45,229	72,000
Intangible asset	3,634	135,494	139,128
Deferred tax assets	1,407	—	1,407
Inventory	81,281	—	81,281
Trade and other receivables	105,475	—	105,475
Pledged deposit	7,810	—	7,810
Cash and cash equivalents	70,670	—	70,670
Trade and other payables	(137,331)	—	(137,331)
Tax payable	(5,870)	—	(5,870)
Deferred revenue	(920)	—	(920)
Short-term bank borrowings	(90,000)	—	(90,000)
Non-controlling interests	(2,578)	—	(2,578)
Deferred Tax liabilities	—	(40,296)	(40,296)
	146,510	166,116	312,626
Non-controlling interests			(62,525)
			250,101
Less: Total consideration			444,440
Deemed distribution			194,339
Total consideration satisfied by:			
Fair value of shares			444,440
Net cash inflow arising on acquisition:			
Cash and cash equivalents acquired			78,480
Net cash and cash inflow of cash and cash equivalents in respect of acquisition of subsidiaries			78,480

33. ACQUISITION OF SUBSIDIARIES (continued)

Notes:

i) The trade and other receivables in this transaction with a fair value of approximately RMB105,475,000 had gross contractual amounts of approximately RMB105,475,000.

ii) The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interests proportionate share of the acquiree's identifiable net assets.

iii) The fair value of assets and liabilities acquired through the acquisition were assessed by depreciated replacement cost approach, market approach and income approach by reference to a valuation performed by an independent professional valuer-Ascent Partners Transaction Service Limited, who have among their staff, fellow members of the Hong Kong Institute of Surveyors and with experience in the valuation of similar assets in the relevant industry.

34. COMMITMENTS

a) Capital commitments outstanding at 31 December 2010 authorised and not provided for in the financial statements were as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Property, plant and equipment				
Contracted for,				
but not provided for:				
Property, plant and equipment	**21,556**	32,711	**—**	26
Land lease payments,				
net of deposits *	**5,500**	5,500	**5,500**	5,500
Others	**160**	160	**160**	160
	27,216	38,371	**5,660**	5,686
Authorised, but not contracted for:				
Plant and equipment	**45,000**	—	**—**	—
	72,216	38,371	**5,660**	5,686
Intangible assets				
Contracted for,				
but not provided for:				
Technical know-how,				
net of deposits	**8,927**	8,927	**8,927**	8,927
	81,143	47,298	**14,587**	14,613

34. COMMITMENTS (continued)

a) Capital commitments outstanding at 31 December 2010 authorised and not provided for in the financial statements were as follows: (continued)

* 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.

b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**554**	42	**274**	42
After 1 year but within 5 years	**93**	—	**—**	—
	647	42	**274**	42

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

35. IMMEDIATE AND ULTIMATE CONTROLLING PARENT COMPANY

At 31 December 2010, 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 consolidated financial statements for public use.

36. 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 prepaid lease payments

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 realisable 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.

36. 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 capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. In the development phase of an internal project, the Group has to exercise judgement to identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. To demonstrate how an intangible asset will generate probable future economic benefits, the Group assesses the future economic benefits to be received from the asset. If the asset will generate economic benefits only in combination with other assets, the Group applies the concept of cash-generating units.

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(j)(ii). 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.

vii) Estimate fair value of acquired intangible assets

Fair value of Anesthetic drug production and selling rights and trade name is determined based on income approach. These calculations require the use of estimates about future cash flow and discount rates. In the process of estimation, management makes assumptions about future cash flow and cost.

Fair value of customers' list is determined based on excess earnings method. These calculations require the use of estimates about future cash flows, discount rate, required returns on contributory assets and duration of customers' list. In the process of estimation, management makes assumptions about future cash flow, costs and duration of customers' list.

36. 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.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010.

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)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

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				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
TURNOVER	**38,256**	3,696	16,310	16,160	20,181
Cost of sales	**(25,876)**	(2,719)	(7,477)	(5,103)	(7,697)
Gross profit	**12,380**	977	8,833	11,057	12,484
Other revenue	**8,361**	712	2,650	3,347	1,606
Other net income	**28,859**	6,344	—	—	—
Selling and distribution costs	**(7,232)**	(1,157)	(3,242)	(3,897)	(11,002)
Administrative expenses	**(37,200)**	(25,166)	(13,047)	(17,088)	(12,514)
Other operating expenses	**(20,350)**	(7,523)	(20,234)	(12,270)	(13,494)
Loss from operations	**(15,182)**	(25,813)	(25,040)	(18,851)	(22,920)
Finance costs	**(15,330)**	(11,663)	(5,831)	(2,541)	(3,018)
LOSS BEFORE TAXATION	**(30,512)**	(37,476)	(30,871)	(21,392)	(25,938)
Income Tax	**131**	—	276	225	(29)
LOSS FOR THE YEAR	**(30,381)**	(37,476)	(30,595)	(21,167)	(25,967)
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**(30,104)**	(37,476)	(30,595)	(21,167)	(25,967)
NON-CONTROLLING INTERESTS	**(277)**	—	—	—	—
	(30,381)	(37,476)	(30,595)	(21,167)	(25,967)
ASSETS AND LIABILITIES					
TOTAL ASSETS	**985,700**	343,426	299,128	325,794	277,354
TOTAL LIABILITIES	**(529,832)**	(310,075)	(228,266)	(224,337)	(154,730)
	455,868	33,351	70,862	101,457	122,624

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 PROPERTIES

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	51
Kuiqi Village, Gushan Town, Jin'an District Fuzhou City, Fujian Province	Commercial	166,109.5	58,434.74	80