



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)



2005

Third Quarterly Report

*For identification purpose only

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This report, for which the directors of Shenzhen Neptunus Interlong Bio-technique Company Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable information enquiries, confirm that, to the best of their knowledge and belief:– (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover for the nine months ended 30 September 2005 (the "Relevant Period") was approximately RMB35,900,000, representing an increase of approximately 8.6% over that of the corresponding period last year
- Turnover of rhIL-2 (125Ser) for injection for the Relevant Period increased by approximately 118.1% as compared with that of the corresponding period last year
- Gross profit maintained at a stable level at 83.3% of the turnover for the Relevant Period
- The board of Directors (the "Board") of the Company does not recommend the payment of a dividend for the nine months ended 30 September 2005

This quarter has been a rewarding and encouraging period for the Company, marked by the successful listing of its shares on GEM. Besides being a milestone in the development of the Company, the listing provides the Company with a strong financial base to underpin its day-to-day operations to support the development of its new products and businesses, and allows it to embark on an expansion of its business and to further solidify its position in bio-pharmaceutical industry of the People's Republic of China (the "PRC").

QUARTERLY RESULTS (UNAUDITED)

The Board of the Company is pleased to announce the unaudited condensed results of the Company for the three months and nine months ended 30 September 2005, together with the comparative unaudited figures for the same period in 2004, as follows:

INCOME STATEMENT (UNAUDITED)

For the three months and nine months ended 30 September 2005

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2005 RMB'000 (Unaudited)	2004 <i>RMB'000</i> (Unaudited)	2005 RMB'000 (Unaudited)	2004 <i>RMB'000</i> (Unaudited)
Turnover	3	12,414	10,740	35,900	33,056
Cost of sales		(1,824)	(2,147)	(5,981)	(5,279)
Gross profit		10,590	8,593	29,919	27,777
Other revenue		107	287	309	823
Selling and distribution costs		(6,018)	(6,860)	(21,022)	(17,305)
General and administrative expenses		(979)	(681)	(3,261)	(2,039)
Other operating expenses		(1,340)	(1,399)	(3,775)	(3,365)
Profit/(loss) from operating activities	4	2,360	(60)	2,170	5,891
Finance costs		(316)	(271)	(861)	(782)
Profit/ (loss) before tax		2,044	(331)	1,309	5,109
Taxation	5	(56)	–	(393)	(1,063)
Profit/ (loss) attributable to the equity holders of the Company		1,988	(331)	916	4,046
Earnings/ (loss) per share – basic (RMB cent)	7	0.28	(0.05)	0.13	0.57

NOTES TO THE UNAUDITED CONDENSED ACCOUNTS

1. General information

The Company is principally engaged in the research and development of modern biological technology, production and sale of cytokines category protein therapeutic drugs and biological products for disease prevention.

The Company is a joint stock company incorporated in the Mainland PRC with limited liability, the H shares of which have been listed on GEM since 12 September 2005.

The unaudited condensed accounts have been approved for issuance by the Board on 7 November 2005.

2. Basis of presentation and principal accounting policies

The unaudited condensed accounts adopted the new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the accounting policies adopted are consistent with those used in the preparation of the Company's audited financial statements for the year ended 31 December 2004.

The unaudited condensed accounts have been prepared in accordance with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

3. Turnover and segmental information

The Company mainly engages in the manufacturing and sales of two bio-technique drugs in the Mainland PRC, namely rhIFN α 2b for injection and rhIL-2 (125Ser) for injection.

Turnover represents medicines sold, net of value-added tax, and after allowances for returns and trade discounts.

An analysis of the Company's turnover and operating results for the Relevant Period by business segments is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)
Turnover				
rhIFN α 2b for injection	10,027	9,933	29,452	30,100
rhIL-2 (125Ser) for injection	2,387	807	6,448	2,956
	12,414	10,740	35,900	33,056
Other revenue				
Interest income	17	287	159	774
Subsidy income	90	–	150	49
	12,521	11,027	36,209	33,879

(a) *Business segment*

Throughout the Relevant Period, the Company has been operating in a single business segment, i.e. the manufacture and sales of medicines. Accordingly, no business segment information is presented.

(b) *Geographical segment*

As the Company's revenue and results were substantially derived from the Mainland PRC and its operating assets and liabilities are also based in Mainland PRC, no geographical segment information is presented.

4. Profit from operating activities

The Company's profit from operating activities is arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2005	2004	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	1,824	2,147	5,981	5,279
Depreciation of fixed assets	616	608	1,764	1,431
Amortisation of technical know-how ¹	265	266	796	789
Rent payment under operating lease	245	245	734	384
Research and development costs	1,133	4,133	3,333	3,086
Provision for doubtful debts	206	–	311	158
Provision for obsolete inventories	–	–	157	86
Loss on disposal of fixed assets	–	–	131	–
	_____	_____	_____	_____

Note:

¹ The amounts of amortisation of technical know-how are included in the aforementioned "Cost of inventories sold" on unaudited income statement.

5. Taxation

- a. The Company is entitled to the income tax at a concessionary statutory rate of 7.5% of the PRC until the year ended 31 December 2007.
- b. The income tax of the Company is provided on the actual tax rate according to the estimated profit before tax incurred in the Relevant Period. The effective tax rate was calculated on the basis of PRC statutory rate of 7.5%, adjusted by the effect of non-deductible expenses.
- c. No provision for Hong Kong profit tax has been made as the Company had no estimated assessable profit in Hong Kong during the Relevant Period.

The taxation on the face of the summary of unaudited results of the Company is as follows:

	For the nine months ended	
	30 September	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax	1,309	5,109
At PRC statutory income tax rate of 7.5%	98	383
Tax effect on non-deductible expenses	295	680
Actual income tax	393	1,063
At effective tax rate	30.0%	20.8%

6. Dividends

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2005 (2004: Nil).

7. Earnings per share

The calculation of earnings per share is based on the unaudited profit attributable to equity holders of the Company for the three months and nine months ended 30 September 2005 of approximately RMB1,988,000 and RMB916,000 respectively (for three months and nine months ended 30 September 2004: loss of approximately RMB331,000 and profit of approximately RMB4,046,000).

The calculation of earnings per share is based on the weighted average number of ordinary shares of 722,320,000 for the three months and nine months ended 30 September 2005 (for three months and nine months ended 30 September 2004: 710,000,000).

Diluted earnings per share in the Period are not presented as there were no dilutive potential ordinary shares issued in the Relevant Period.

8. Reserves

The movements of reserves during the period for the nine months ended 30 September 2005 and for the nine months ended 30 September 2004 is as follows:

	Statutory public welfare fund <i>RMB'000</i> (Unaudited)	Statutory revenue reserves <i>RMB'000</i> (Unaudited)	Reserves <i>RMB'000</i> (Unaudited)	Retained profits <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Balance as at 1 January 2004	594	1,188	1,782	1,801	5,365
Profit attributable to the equity holders of the Company	—	—	—	4,046	4,046
	<u>594</u>	<u>1,188</u>	<u>1,782</u>	<u>5,847</u>	<u>9,411</u>
Balance as at 30 September 2004					
Balance as at 1 January 2005	970	1,940	2,910	9,251	15,071
Share premium on issuing of H shares	—	—	43,870	—	43,870
Profit attributable to the equity holders of the Company	—	—	—	916	916
	<u>—</u>	<u>—</u>	<u>—</u>	<u>916</u>	<u>916</u>
Balance as at 30 September 2005	<u>970</u>	<u>1,940</u>	<u>46,780</u>	<u>10,167</u>	<u>59,857</u>

9. Post balance sheet events

According to the requirement issued by National Development and Reform Commission of the PRC dated 28 September 2005, as from this date, the highest retail price of 22 kinds of medicines including rhIFN α 2b will be cut down. The Company's product rhIFN α 2b will encounter price cut that is given off 17% to 34% for every specification.

rhIFN α 2b is current the primary product of the Company. Its unaudited turnover represented approximately 82.0% of the total turnover of the Company for the Relevant Period. Such reduction of price above mentioned will influence future profitability of the Company. The Directors believe that the Company has adjusted the price of the above mentioned products reasonably to make it competitive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF TRADING RECORD

Business review

The Company is principally engaged in research and development of modern biological technology, production and sale of cytokines category protein therapeutic drugs and biological products for disease prevention in Mainland PRC. During the Relevant Period, the Company produced and sold two drugs, namely rhIFN α 2b for injection and rhIL-2 (125Ser) for injection. The two abovementioned products in the Period are mainly sold in Mainland PRC with small quantities of rhIFN α 2b for injection exported to the Southeast Asian regions.

Turnover of the Company amounted to approximately RMB35,900,000 during the Relevant Period, increased by approximately 8.6% from that of the corresponding period last year. The turnover of the Company's main product, namely rhIFN α 2b for injection, represented approximately 82.0% of the total turnover for the Relevant Period. In despite of the decrease in the price of the products differently during the Relevant Period, the overall turnover was improved due to the increase in sales volume as a result of the increasing marketing effort. During the Relevant Period, the growth in turnover was mainly attributable to the improved sales of rhIL-2 (125Ser) for injection. Due to the increasing marketing and promotion effort of the Company, during the Relevant Period, the turnover of rhIL-2 (125Ser) for injection increased by approximately 118.1% as compared with that of the corresponding period last year.

The gross profit of the Company amounted approximately RMB10,590,000 and the gross profit margin was approximately 85.3% for the three months ended 30 September 2005, represented an increase of approximately 23.2% and approximately 6.6% respectively. For the nine months ended 30 September 2005, the gross profit of the Company amounted to approximately RMB29,919,000 during the Relevant Period, represented an increase of approximately 7.7% as compared to that of approximately RMB27,777,000 for the same period of the previous year. The increase in the gross profit was attributed to the increase in the sales volume. The overall gross profit margin slightly decreased from approximately 84.0% for the nine months ended 30 September 2004 to approximately 83.3%. Although the price of the products were cut down during the Relevant Period, a slight decrease in overall gross profit margin was attribute to the decrease in apportionment of the fixed-costs for unit product due to the substantial increase in the sales volume, and the increase in sales of rhIL-2 (125Ser) for injection, which has higher gross profit margin. In addition, the increase in total production volume as compared to the same period of the prior year, result in the advance of overall gross margin of the Company.

Selling and distribution costs of the Company amounted to approximately RMB21,022,000 during the Relevant Period, represented an increase of approximately 21.5% over that of approximately RMB17,305,000 in the corresponding period last year. However, selling and distribution costs of the Company amounted to approximately RMB6,018,000 for the three months ended 30 September 2005, decreased by approximately 12.3% as compared to that of the corresponding period last year. Such decrease was mainly attributed to the increasing marketing and promotion effort of the Company in the first half year, which increases the selling and distribution costs in the first half year and decrease the same in the next half year.

General and administrative expenses of the Company amounted to approximately RMB3,261,000 for the Relevant Period, represented an increase of approximately 59.9% as compared to that of approximately RMB2,039,000 for the same period in the previous year. Such increase was mainly due to the increase in salary and operating costs as a result of the increase in number of staff, and the increase in expenditure due to the listing.

The profit attributable to the equity holders of the Company amounted to approximately RMB916,000 during the Relevant Period as compared to that of approximately RMB4,046,000 for the corresponding period of the previous year. The substantial decrease was mainly due to the increasing marketing and promotion effort, and the increase in general and administration expenses of the Company during the Relevant Period.

New products' development

During the Relevant Period, samples of the new product influenza vaccine had already been sent to 中國藥品生物製品檢定所 (National Institute for the Control of Pharmaceutical and Biological Products) for examination, and is presently waiting for receiving production approval document. As at the date of this report, the Company has not yet received the related approval, and the application is still in the process. Once the production approval document for influenza vaccine is received, the Company will try to apply for GMP certification of the new product with 中國國家食品藥品監督管理局 (State Food and Drug Administration of the PRC) (the "SDA").

During the Relevant Period, the new product rhIFN α 2b vaginal effervescent tablet had already completed clinical trial and is ready to apply for new drug certificate with the SDA when the requisite information is well-prepared. The relevant production facilities for the production of rhIFN α 2b vaginal effervescent tablet plans will be built starting from the forth quarter of this year.

One application for invention patent, 用新的複性方法製備重組人神經生長因子 (a new renaturation methods for production of rhNGF, certificate no.: 228109) was granted the patent certificate by 中國國家知識產權局 (State Intellectual Property Office of PRC) in the Relevant Period.

PROSPECTS

The Company will further expand the market share of rhIL-2 (125Ser), and expects to improve its profitability in the future.

The Directors expect that the Company is about to launch the new product in the first quarter in 2006, namely influenza vaccine, which will provide additional income stream to and enhance the profitability of the Company.

The Company will continuously conduct research and development for new products so as to improve its product structure and diversify the risk of relying on too few products. The Directors believe that influenza vaccine will help the Company to gain to access to preventive medicine industry and exploit development opportunities and increase popularity. At the same time, the Company is going to actively exploit overseas market, in order to maximize the return of investments plunged into the operation.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2005, the interests of the Directors, Supervisors and chief executives (i) in the registered capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), or (ii) which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein or (iii) which will be required, pursuant to the minimum code of conduct regarding directors' securities transactions mentioned in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the H Shares are listed will be as follows:

Aggregate positions in Shares of the Company

Name	Capacity	Type of interests	Approximate percentage of domestic shares	Approximate percentage of interest in the Company's share capital	Notes
Chai Xiang Dong ¹	Beneficial owner	Personal	6.71%	5.04%	Domestic shares 47,671,000
Wang Yan ²	Beneficial owner	Personal	2.00%	1.5%	Domestic shares 14,200,000
Yu Jun ³	Beneficial owner	Personal	0.14%	0.11%	Domestic shares 1,014,000

Notes:

- ¹ Being an executive Director and the chief executive of the Company.
- ² Being an executive Director of the Company.
- ³ Being a supervisor and an employee of the Company.

Aggregate positions in associated corporations of the Company

Name	Capacity	Type of interests	Name of associated corporation	Number of shares in associated corporation	Approximate percentage of shareholding
Zhang Si Min ⁴	Beneficial owner	Personal	Neptunus Bio-engineering	30,000	0.009%
			Ankeen Enterprises	15	15%

Note: Mr. Zhang Si Min holds 30,000 of the entire registered capital of Shenzhen Neptunus Bio-engineering Company Limited ("Neptunus Bio-engineering"), the Company's controlling shareholder, which was the beneficial owner of approximately 67.5% of the issued share capital of the Company as at 30 September 2005.

Mr. Zhang Si Min holds 15% of the issued capital of Ankeen Enterprises Limited ("Ankeen Enterprises"), which in turn is beneficially interested in approximately 41.90% of the entire registered capital of Shenzhen Neptunus Group Company Limited ("Neptunus Group"), which in turn is beneficially interested in approximately 49.08% of the entire registered capital of Neptunus Bio-engineering, which in turn is beneficially interested in approximately 67.5% of the issued capital of the Company as at 30 September 2005.

⁴ Being an executive Director of the Company.

Save as disclosed herein, as at 30 September 2005, none of the Directors, Supervisors or chief executives of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the minimum code of conduct regarding directors' securities transactions mentioned in Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as known to any Director or chief executive of the Company, as at 30 September 2005, shareholders (not being Directors and the chief executive of the Company) holding shares and underlying shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company, and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO or entered in the register kept by the Company, were as follows:

Aggregate positions in Shares of the Company

Name of Substantial Shareholders	Capacity	Type of Interest	Approximate percentage of domestic shares	Approximate percentage of interest in the Company's share capital	Notes
Neptunus Bio-engineering	Beneficial owner	Personal	90%	67.5%	Domestic shares 639,000,000
Neptunus Group ¹	Interest in controlled corporation	Corporate	90%	67.5%	Domestic shares 639,000,000
Ankeen Enterprises ²	Interest in controlled corporation	Corporate	90%	67.5%	Domestic shares 639,000,000
Wang Jin Song ³	Interest in controlled corporation	Corporate	90%	67.5%	Domestic shares 639,000,000
Li Li ⁴	Interest of spouse	Family	6.71%	5.04%	Domestic shares 47,671,000

Notes:

- ¹ Neptunus Group will be deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering as Neptunus Group is beneficially interested in approximately 49.08% of the entire registered capital of Neptunus Bio-engineering.
- ² Ankeen Enterprises will be deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering as Ankeen Enterprises is beneficially interested in approximately 41.90% of the entire registered capital of Neptunus Group, which in turn is beneficially interested in approximately 49.08% of the entire registered capital of Neptunus Bio-engineering.

- ³ Wang Jin Song (“Ms. Wang”) will be deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering as Ms. Wang is beneficially interested in 85% of the issued share capital of Ankeen Enterprises, which in turn is beneficially interested in approximately 41.90% of the entire registered capital of Neptunus Group, which in turn is beneficially interested in approximately 49.08% of the entire registered capital of Neptunus Bio-engineering.
- ⁴ Li Li (“Ms. Li”) will be deemed to be interested in the 47,671,000 domestic shares of the Company held by Chai Xiang Dong as Ms. Li is the spouse of Chai Xiang Dong, and is taken to be interested in any shares in which Chai Xiang Dong is interested.

Save as disclosed herein, as at 30 September 2005, the Directors are not aware of any other persons (except the Directors and chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be entered in the register according to section 336 of the SFO.

PURCHASE, SALE OR REPURCHASE OF SHARES

The H shares of the Company have been listed on GEM since 12 September 2005.

Save for the placing of shares on GEM, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the shares during the period.

COMPLIANCE ADVISER’S INTERESTS

Pursuant to the compliance adviser agreement dated 29 August 2005 entered into between the Company and First Shanghai Capital Limited (“First Shanghai”), First Shanghai has been appointed as the compliance adviser as required under the GEM Listing Rules for the period from 12 September 2005 to 31 December 2007. First Shanghai is paid for acting as the Company’s compliance adviser.

As at the date of this report, as notified by First Shanghai, other than disclosed above, neither First Shanghai and nor its respective directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the securities of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the securities of the Company as at 30 September 2005.

COMPETING INTERESTS

The Company entered into an agreement with the substantial shareholder on 21 August 2005, Neptunus Bio-engineering, regarding undertakings of non-competition and preferential right of investment. Pursuant to such agreement, Neptunus Bio-engineering and its associates will not, directly or indirectly, participate in or operate any business which may constitute direct or indirect competition with the business operated by the Company. Besides, the Company is entitled to the preferential right of investment in business which may compete with the existing and future business.

Save as disclosed herein, so far as known to any Director or chief executive of the Company, during the Relevant Period, none of the Directors, the substantial shareholders, the initial management shareholders of the Company or its associates (as defined in the GEM Listing Rules) has any interests in a business which competes or may compete with the business of the Company or has any conflict of interest with the Company.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions 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, the Directors have complied with the required standard of dealings and the code of conduct regarding directors' securities transactions in the relevant period under review.

AUDIT COMMITTEE

The Company established an audit committee on 21 August 2005 with written terms of reference in compliance with the GEM Listing Rules and based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports, and to provide suggestions and opinions thereon to the Board. In addition, the audit committee members will also meet with management at least three times a year to review the accounting principles and practices adopted by the Company and to discuss matters relating to the auditing, internal control system and financial reporting process. The audit committee comprises one non-executive Director, namely Ms. Yu Lin and two independent non-executive Directors, namely Mr. Yick Wing Fat, Simon (appointed on 21 August 2005) and Mr. Poon Ka Yeung (appointed on 21 August 2005). Mr. Yick Wing Fat, Simon is the chairman of the audit committee.

The audit committee has already reviewed the unaudited accounts of the Company for the nine months ended 30 September 2005.

REPORT ON CORPORATE GOVERNANCE

The Company has embraced the terms of the Code on Corporate Governance Practices and Corporate Governance Report (the "Code") of the GEM Listing Rules, and combined these with the Articles, and its existing principles and practices - all with the objective to perfect corporate governance structure and experience, as well as construct the standard in administration of the Company. The Company's corporate governance is based on the standards set out in the Code.

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

Shenzhen, PRC, 7 November 2005

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