



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)

2007  
Third Quarterly Report



\* For identification purpose only

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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



### FINANCIAL HIGHLIGHTS (UNAUDITED)

- For the nine months ended 30 September 2007 (the “Relevant Period”), the revenue of the Company together with its subsidiary, Ascendent Bio-Technology Company Limited, (collectively the “Group”) was approximately RMB11,992,000, representing a decrease of approximately 24.62% from that of the same period last year.
- During the Relevant Peiod, the loss attributable to equity holders of the Group was approximately RMB17,438,000 as compared to the loss attributable to equity holders of approximately RMB19,698,000 in the same period last year.
- During the Relevant Period, the loss per share of the Group was approximately RMB1.84 fen.
- The board of Directors of the Company (the “Board”) do not recommend the payment of any dividend for the Relevant Period.



## QUARTERLY RESULTS (UNAUDITED)

The Board is pleased to present the unaudited results of the Group for the nine months ended 30 September 2007.

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and nine months ended 30 September 2007

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2007 (Unaudited) RMB'000	2006 RMB'000	2007 (Unaudited) RMB'000	2006 RMB'000
REVENUE	5	<b>4,691</b>	3,780	<b>11,992</b>	15,908
Cost of sales		<b>(1,892)</b>	(716)	<b>(4,284)</b>	(2,848)
Gross profit		<b>2,799</b>	3,064	<b>7,708</b>	13,060
Other income	5	<b>276</b>	309	<b>772</b>	984
Selling and distribution costs		<b>(757)</b>	(2,756)	<b>(2,931)</b>	(11,539)
Administrative expenses		<b>(3,357)</b>	(4,541)	<b>(9,276)</b>	(9,410)
Other operating expenses		<b>(2,123)</b>	(1,059)	<b>(9,723)</b>	(11,063)
LOSS FROM OPERATING ACTIVITIES	6	<b>(3,162)</b>	(4,983)	<b>(13,450)</b>	(17,968)
Finance costs	7	<b>(1,277)</b>	(246)	<b>(3,988)</b>	(2,166)
LOSS BEFORE TAX		<b>(4,439)</b>	(5,229)	<b>(17,438)</b>	(20,134)
Tax	8	<b>—</b>	—	<b>—</b>	436
LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<b>(4,439)</b>	(5,229)	<b>(17,438)</b>	(19,698)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (RMB FEN)					
Basic	10	<b>(0.47)</b>	(0.55)	<b>(1.84)</b>	(2.08)



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2007

	Issued share capital RMB'000	Share premium account RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
At 1 January 2006	94,667	41,923	2,220	1,110	8,671	148,591
Loss for the period	—	—	—	—	(19,698)	(19,698)
At 30 September 2006	<u>94,667</u>	<u>41,923</u>	<u>2,220</u>	<u>1,110</u>	<u>(11,027)</u>	<u>128,893</u>
At 1 January 2007	94,667	41,923	2,220	1,110	(17,296)	122,624
Loss for the period	—	—	—	—	(17,438)	(17,438)
<b>At 30 September 2007</b>	<b><u>94,667</u></b>	<b><u>41,923</u></b>	<b><u>2,220</u></b>	<b><u>1,110</u></b>	<b><u>(34,734)</u></b>	<b><u>105,186</u></b>



## NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

### 1. Corporate information

Shenzhen Neptunus Interlong Bio-technique Company Limited (the "Company") is a joint stock limited company registered in the People's Republic of China (the "PRC"). The registered office of the Company is located at 24th Floor, Block A, Neptunus Building, Nanyou Avenue, Nanshan District, Shenzhen, Guangdong Province, the PRC.

During the Relevant Period, the Company and its subsidiary, Ascendent Bio-Technology Company Limited (collectively referred as the "Group") were principally engaged in the research and development of modern biological technology, and the production and sale of cytokines category protein therapeutic drugs and vaccines for infectious diseases.

### 2. Basis of presentation and accounting policies

These unaudited condensed consolidated financial statements have been prepared based on the accounting standards generally accepted in Hong Kong and are in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Chapter 18 of the GEM Listing Rules. The unaudited condensed consolidated financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2006.

The accounting policies adopted are in line with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2006, except for the adoption of the new HKFRSs and HKASs as disclosed in note 3 below.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### 3. Changes in accounting policies

#### 3.1 Impact of new and amended HKFRSs and HKASs

Hong Kong Institute of Certified Public Accountants has issued certain new and amended HKFRSs and HKASs which are generally applicable for accounting periods beginning on or after 1 January 2007. The Group has adopted the following HKFRS and HKAS which have been issued as at 30 September 2007 and which are relevant to these quarterly financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions

Adoption of the above accounting standards does not have significant impact on the Group's operating results or financial position.



### 3.2 Impact of issued but not yet effective HKFRSs and HKASs

The Group has not applied the following new and revised HKFRSs and HKASs, that have been issued but are not yet effective, in these quarterly financial statements.

HKFRS 8	Operating Segments
HK(IFRIC)-Int 12	Service Concession Arrangement
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009.

HK(IFRIC)-Int 12 and 14 shall be applied for annual periods beginning on or after 1 January 2008.

HK (IFRIC)-Int 13 shall be applied for annual periods beginning on or after 1 July 2008.

The Group expects that the adoption of the above policies are unlikely to have a significant impact on the Group's financial statements for the period in which the Group initially adopted such policies.

## 4. Segment information

The Group conducts its business within one business segment, i.e., the business of manufacturing and selling medicine products. Accordingly, no business segment information is presented. The Group also operates within one geographical segment in the PRC. All segment assets, liabilities and capital expenditure are located in the PRC and therefore no other geographical segments are presented, except for the segment revenue. Segment revenue is presented based on the geographical location of customers.



An analysis by geographical segment, as determined by the location of the Group's operations, is as follows:

<b>Nine months ended 30 September 2007 (Unaudited)</b>	<b>PRC RMB'000</b>	<b>Pakistan RMB'000</b>	<b>Others RMB'000</b>	<b>Total RMB'000</b>
Segment revenue:				
Sales to external customers	<b>9,872</b>	<b>1,936</b>	<b>184</b>	<b>11,992</b>
Cost of sales	<b>(3,831)</b>	<b>(420)</b>	<b>(33)</b>	<b>(4,284)</b>
Gross profit	<b>6,041</b>	<b>1,516</b>	<b>151</b>	<b>7,708</b>
<b>Nine months ended 30 September 2006 (Unaudited)</b>				
Segment revenue:				
Sales to external customers	14,222	994	692	15,908
Cost of sales	(2,362)	(294)	(192)	(2,848)
Gross profit	11,860	700	500	13,060

## 5. Revenue and other income

The Group's revenue represents the net invoiced value of the goods sold net of value-added tax ("VAT") after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	<b>For the three months ended 30 September 2007</b>		<b>For the nine months ended 30 September 2007</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Revenue				
Sale of medicines	<b>4,691</b>	3,780	<b>11,992</b>	15,908
Other income				
Bank interest income	<b>146</b>	211	<b>380</b>	433
Subsidy income	<b>130</b>	98	<b>392</b>	532
Others	—	—	—	19
	<b>276</b>	309	<b>772</b>	984





## 6. Loss from operating activities

The Group's loss from operating activities is arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2007 (Unaudited) RMB'000	2006 RMB'000	2007 (Unaudited) RMB'000	2006 RMB'000
Cost of inventories sold	<b>1,340</b>	397	<b>3,281</b>	1,901
Recognition of prepaid land lease payments	<b>45</b>	45	<b>136</b>	136
Depreciation	<b>1,002</b>	691	<b>3,260</b>	1,998
Amortisation of intangible assets	<b>1,069</b>	770	<b>3,207</b>	1,308
Research and development costs	<b>1,465</b>	1,548	<b>5,068</b>	3,602
Minimum lease payments under operating leases in respect of land and buildings	<b>265</b>	226	<b>647</b>	672
Auditors' remuneration	<b>160</b>	197	<b>543</b>	384
Employee benefits expenses (including Directors' remuneration):	<b>3,711</b>	4,006	<b>11,117</b>	10,238
Salaries and wages	<b>3,472</b>	3,808	<b>10,475</b>	9,750
Pension scheme contributions	<b>239</b>	198	<b>642</b>	488
Impairment loss on bad and doubtful debts	<b>68</b>	1,457	<b>570</b>	9,395
Loss on disposal of properties, plant and equipment	<b>—</b>	2	<b>—</b>	14
	<u><b>—</b></u>	<u>2</u>	<u><b>—</b></u>	<u>14</u>

Certain figures and the comparative amounts have been adjusted and reclassified to conform with changes in disclosures in the current year.

## 7. Finance costs

	For the three months ended 30 September		For the nine months ended 30 September	
	2007 (Unaudited) RMB'000	2006 RMB'000	2007 (Unaudited) RMB'000	2006 RMB'000
Interest on bank loans	<b>3,985</b>	2,294	<b>8,920</b>	4,657
Less: Interest capitalised	<b>(2,708)</b>	(2,048)	<b>(4,932)</b>	(2,491)
	<u><b>1,277</b></u>	<u>246</u>	<u><b>3,988</b></u>	<u>2,166</u>



## 8. Tax

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

The Company is located at the Shenzhen Special Economic Zone and is subject to a corporate income tax rate of 15%.

As a high technology enterprise, the Company obtained approval for a 50% exemption from corporate income tax in 2004, and thereafter for three more years until the year ending 31 December 2007. Accordingly, the Company was entitled to a 50% exemption from income tax for the periods ended 30 September 2006 and 30 September 2007.

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000
Current	—	—	—	—
Deferred	—	—	—	(436)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>(436)</u>
Total tax charge for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(436)</u>

## 9. Dividends

The Board does not recommend the payment or declaration of any dividend for the Relevant Period (2006: Nil).

## 10. Loss per share

For the three month and nine month periods ended 30 September 2007, the basic losses per share were based on the net loss attributable to equity holders of the Company of approximately RMB4,439,000 and RMB17,438,000 respectively (three month and nine month periods ended 30 September 2006: net loss of approximately RMB5,229,000 and net loss of approximately RMB19,698,000 respectively) and 946,670,000 ordinary shares in issue for the three month and nine month periods ended 30 September 2007 (2006: 946,670,000 ordinary shares).

Diluted earnings per share for the three month and nine month periods ended 30 September 2006 and 2007 have not been presented because no potential dilutive ordinary shares existed during these periods.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the Relevant Period, the Company mainly produced and sold three drugs, namely rhIFN $\alpha$ 2b for injection, recombinant human interleukin-2 (125Ser) (“rhIL-2 (125Ser)”) for injection and influenza vaccine. The sale of rhIFN $\alpha$ 2b for injection and rhIL-2(125Ser) for injection accounted for 91.03% of the total revenue. The two abovementioned products were mainly sold in the PRC and partly exported to the Southeast Asian markets while the influenza vaccine was launched in the market at the end of September 2007.

### Influenza Vaccine Business

During the Relevant Period, the Company’s manufacturing workshop for influenza vaccine in the Neptunus Industrial Complex operated as scheduled. The product unit costs continued to decrease as mass production continued to increase and a sales revenue of RMB1,076,000 was recorded at the end of September 2007. It is expected that the percentage of sales revenue from the influenza vaccine for the fourth quarter of 2007 will have a bigger increase.

During the Relevant Period, the Company prepared for the application of the PRC GMP Certification for the influenza vaccine plant in Baoan district, Shenzhen.

### International Market Business

The Company has submitted rhIFN $\alpha$ 2b and/or rhIL-2 (125Ser) drug registration information to the relevant authorities in Korea, Thailand, Ukraine, Columbia, Mexico and Vietnam and these applications are still pending approval.

### Research and Development

On 23 July 2007, the Company’s “cream containing interferon encapsulated with liposome” was granted the patent of invention by the State Intellectual Property Office and is in the process of applying for the patent certificate.

On 21 September 2007, the Company’s “expression of recombinant human nerve growth factor in yeast and method of preparation” was granted the patent of invention by the State Intellectual Property Office and is in the process of applying for the patent certificate.

During the Relevant Period, the Company commenced preparation for the clinical trial in respect of Inactivated Split Influenza Vaccine of dosages 0.25ml and 0.5ml respectively.



## PROSPECT

### International market operations

The Company will continue to secure overseas medicine registrations for rhIFN $\alpha$ 2b for injection and expand its sales channels through overseas sales agents or intermediaries. The Company will also seek medicine registrations and steady business expansion in overseas markets for rhIL (125 Ser) for injection through cooperation with overseas sales agents. At the same time, the Company is putting its efforts in preparing the early stage information on the international registration of its influenza vaccine.

### Influenza vaccine operations

In recent years, the demand for influenza vaccine in the PRC has been rising. The Company's influenza vaccine has been launched in the market. The Company will actively expand its business in order to obtain the maximum market share in the PRC.

### Other development opportunities

The Company will continue to invest in the research and development of new products so as to upgrade the existing product structure and minimise operation risks.

Meanwhile, the Company is actively developing long-term and steady overseas marketing channels, leveraging on its related experience in providing consultation services to other domestic operators, so that the invested resources may create maximum economic returns.

The Company's wholly-owned subsidiary, Ascendent Bio-Technology Company Limited, will continue to facilitate the Company in gaining access to international markets, and will provide more opportunities for the Company's future developments.

## FINANCIAL REVIEW

Revenue of the Group for the Relevant Period amounted to approximately RMB11,992,000, representing a decline of 24.62% from RMB15,908,000 for the corresponding period of the previous year. Revenue derived from the Group's principal product rhIFN $\alpha$ 2b for injection during the Relevant Period was RMB8,970,000, accounting for approximately 74.80% of the total revenue. The decline was mainly due to the significant decrease in the unit selling price of the Group's products under the impact of a change in its sales model. During the Relevant Period, the Group also enhanced its scale of cooperation with agents so that they would increase their promotional efforts to end users. Sales volume of the Group's high dosage products with high profitability for the Relevant Period recorded a higher growth rate than that for the same period of the previous year and such growth was also recorded in the market share. The Group adjusted its sales strategy for low dosage products with low profitability. Hence, the sales volume of its low dosage products with low profitability also decreased. The Group's new product, influenza vaccine, was launched in the market at the end of September 2007. Since its sales period was relatively short, the influenza vaccine only made a small contribution to the revenue for the Relevant Period.



During the Relevant Period, the gross profit and the gross margin of the Group was approximately RMB7,708,000 and 64.28% respectively, representing a decrease of approximately RMB5,352,000 in gross profit and a decrease of 17.82% in gross margin as compared with that during the corresponding period of the previous year. The decrease in gross profit was due to a decline in the unit selling price. Decrease in expenses was mainly due to the Group's change in its marketing model in August 2006 – from the previous direct sales and distribution model to a marketing model through agents by selling products to agents at low prices. The Group is no longer engaged in professional marketing and promotion of products, resulting in a substantial decrease in expenses. As a result of the Group's change in its marketing model since August 2006, the Group's unit selling price has dropped substantially, with the related costs remaining basically stable. Thus the gross margin has also dropped. The Group has focused on increasing its sales efforts in promoting high dosage products with high profitability and the influenza vaccine in order to offset the fall in the gross margin resulted from a decline in the unit selling price due to the change in its sales model.

Selling and distribution expenses of the Group amounted to RMB2,931,000 during the Relevant Period, representing a drastic decrease of approximately RMB8,608,000 (approximately 74.60%) as compared with that during the corresponding period of the previous year, due to the aforesaid reasons.

The unaudited administrative expenses of the Group amounted to approximately RMB9,276,000 during the Relevant Period, representing a decrease of approximately RMB134,000 (approximately 1.42%) when compared with that of the corresponding period of the previous year. The decrease was attributed to the launch of the influenza vaccine in September 2007 with the related costs of amortization of intangible assets now being recorded as cost of sales. Other unaudited operating expenses of the Group were approximately RMB9,723,000 during the Relevant Period, representing a decrease of approximately RMB1,340,000 (approximately 12.11%) as compared with that during the same period of the previous year. Such decrease was mainly due to the provision of doubtful debts of RMB1,457,000 which was recorded during the same period of the previous year, but the amount provided has only increased by RMB570,000 during the Relevant Period.

The Group's unaudited loss before tax during the Relevant Period was approximately RMB17,438,000, which was lower than the unaudited loss of RMB20,134,000 recorded for the same period of the previous year. While the Group's revenue recorded a reduction, selling expenses also reduced significantly due to the change in its sales model. The launch of the influenza vaccine also partly set off the loss before taxation.

As such, the unaudited net loss attributable to the equity holders of the Group amounted to approximately RMB17,438,000 for the Relevant Period, while the the unaudited net loss attributable to the equity holders of the Group was approximately RMB19,698,000 for the corresponding period of the previous year.



## LIQUIDITY AND FINANCIAL RESOURCES

### Borrowings and banking facilities

As of 30 September 2007, the Company had total bank financing liabilities of approximately RMB160,000,000 ("Bank borrowings"), of which short-term bank borrowings were approximately RMB30,000,000 and long-term bank borrowings were RMB130,000,000. Loans from the Company's controlling shareholders were approximately RMB48,000,000.

On 23 May 2006, the Company entered into a long-term loan agreement (the "CDB Loan Agreement") with China Development Bank ("CDB") for the grant by CDB of a loan of RMB130,000,000 (the "CDB Loan") to the Company to finance the Company's project on subunit vaccine of influenza virus (the "Project"). Pursuant to the CDB Loan Agreement, CDB requires the Company, Shenzhen Neptunus Bio-engineering Company Limited ("Neptunus Bio-engineering") (the Company's controlling shareholder) and Mr. Chai Xiang Dong (the management shareholder of the Company) to provide guarantee and securities (including without limitation the pledge of the domestic shares of the Company currently held by them to CDB) to secure the CDB Loan. The Company would apply the revenue from the Project to repay the CDB Loan by instalments.

On 26 March 2007, the Company entered into an entrusted loan agreement with Industrial Bank and an independent third party in respect of an amount of approximately RMB30,000,000 (the "Entrusted Loan") for a term of one year. The Entrusted Loan is repayable on 26 March 2008 and the Company has not provided any guarantee or securities in respect of the Entrusted Loan.

On 6 April 2007, the Company entered into a loan agreement with Neptunus Bio-engineering in respect of an amount of RMB39,000,000 for a term of two years. The amount is due for repayment on 5 April 2009. The Company has not provided any guarantee or securities in respect of the above loan.

### The CDB Loan Agreement and the CDB Loan

#### Specific performance obligations by the controlling shareholder

The CDB Loan Agreement imposes specific performance obligations on the Company and Neptunus Bio-engineering as conditions precedent to the drawdown of monies by the Company under the CDB Loan. The CDB Loan Agreement requires Neptunus Bio-engineering to enter into an Agreement on Pledge of Shares with CDB and to act as a guarantor with joint liabilities together with the Company for the CDB Loan and to execute a Guarantee Agreement in favour of CDB. Neptunus Bio-engineering 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 such Guarantee Agreement and Agreement on Pledge of Shares should remain valid during the term of the CDB Loan, that Neptunus Bio-engineering would not be in breach of any provision of the CDB Loan Agreement and that there would not be any circumstances in relation to the financial standing of Neptunus Bio-engineering and the pledged property which would prejudice the interests of CDB. 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 required by CDB and valid security agreements should be entered into between the security providers (including without limitation the Company and Neptunus Bio-engineering) and CDB. The CDB Loan Agreement further requires Neptunus Bio-engineering and Mr. Chai Xiang Dong to provide CDB with an undertaking in relation to the restrictions on the distribution of dividends 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 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 of the Company currently held by it (representing approximately 67.5% of the Company's issued share capital) to CDB as security for the CDB Loan. Pursuant to the Agreement on Pledge of Shares, if the Company fails to repay the CDB Loan in accordance with the terms of the CDB Loan Agreement, CDB would be entitled to sell the abovementioned pledged shares and to apply such proceeds to set-off the CDB Loan. The Company had received a notice from Neptunus Bio-engineering regarding the abovementioned pledge of Shares and had 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 of Shares.

Although the Guarantee Agreement and the Agreement on Pledge of Shares executed by Neptunus Bio-engineering for the purpose of securing the CDB Loan and its shareholders' loan to the Company amount to financial assistance to the Company, and are connected transactions under the GEM Listing Rules, the Company has not provided any security over its assets to Neptunus Bio-engineering in respect of the above-mentioned financial assistance and each of such financial assistance is on normal commercial terms (or better to the Company). The above connected transactions are therefore exempt connected transactions under Rule 20.65(4) of the GEM Listing Rules.

#### **Pledge of Shares by management shareholder**

On 23 May 2006, Mr. Chai Xiang Dong, the management shareholder of the Company, entered into an Agreement on Pledge of Shares with CDB pursuant to which Mr. Chai Xiang Dong pledged 47,671,000 domestic shares of the Company currently held by him (representing approximately 5.04% of the Company's issued share capital) to CDB as security for the CDB Loan. Pursuant to the Agreement on Pledge of Shares, if the Company fails to repay the CDB Loan in accordance with the terms of the CDB Loan Agreement, CDB would be entitled to sell the abovementioned pledged shares and to apply such proceeds to set-off the CDB Loan. The Company had received a notice from Mr. Chai Xiang Dong regarding the aforesaid pledge of Shares and had 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 offered by the Company to its shareholders during the term of the pledge of Shares, 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 the procedures 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 financial assistance to the Company and is a connected transaction under the GEM Listing Rules, the Company has not provided any security over its assets to Mr. Chai Xiang Dong in respect of this financial assistance and this financial assistance is on normal commercial terms (or better to the Company). The above connected transaction is therefore an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules.

### Shareholder's Loans

The Shareholder's loan amounting to RMB9,000,000 is interest free and has been used to pay off the land premium for the land used by the Company for the construction of the new production base in Baoan, Shenzhen. There is no fixed due date for the repayment of the above Shareholder's loan and the controlling shareholder of the Company has undertaken to the Company that it would not demand repayment of the loan unless and until: (1) the repayment of such Shareholder's loan would not adversely affect the operations of the Company and/or the implementation of its business objectives as set out in the prospectus dated 29 August 2005 (the "Prospectus"); (2) each of the independent non-executive Directors is of the opinion that the repayment of such Shareholder's 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; and (3) the Company has a positive cash flow and has retained profits in the relevant financial year.

The Shareholder's loan amounting to RMB39,000,000 for a term of two years obtained by the Company on 6 April 2007 was mainly used as working capital for the daily operating activities of the Company. The interest of this borrowing shall take reference to the interest rates for the CDB Loan for the same period, to be repaid together with the principal upon maturity.

### Gearing ratio

As at 30 September 2007, the gearing ratio of the Company was approximately 163.52% (end of 2006: 106.02%) and was calculated by a division of the total interest-bearing borrowings by equity.

### Pledge of assets

Pursuant to the pledge agreements entered into between the Company and CDB on 23 May 2006, the Company pledged all its lawfully obtained land use rights, buildings, plant and facilities to CDB and is in the process of completing the relevant pledge procedures.

The Company has also entered into the Agreement on Pledge of the Project Income Rights and Account Supervision, the Company is required to pledge all income rights under the Project with CDB, and to deposit all revenue derived from the Project into the accounts maintained by the Company in the administering branch of CDB and the clearing bank. The revenue will be subject to supervision by CDB and the clearing bank.

### Foreign currency risk

All the Company's operating activities are conducted in the PRC, and all transactions are denominated in Renminbi. Therefore, the Company's exposures to changes in foreign exchange are minimal.





### Contingent Liability

As at 30 September 2007, the Company had no significant contingent liability.

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

As at 30 September 2007, the interests and short positions of the Directors, supervisors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors regarding the securities of their listed issuer as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

*Long positions in shares of the Company:*

Director/Supervisor	Capacity	Type of Interests	Number of domestic shares held	Approximate percentage of the domestic shares	Approximate percentage of the Company's issued share capital
Mr. Chai Xiang Dong <sup>(Note 1)</sup>	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Ms. Wang Yan <sup>(Note 2)</sup>	Beneficial owner	Personal	14,200,000	2.00%	1.50%
Mr. Yu Jun <sup>(Note 3)</sup>	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

- 1 Executive Director and general manager of the Company
- 2 Executive Director of the Company
- 3 Supervisor and employee of the Company



Long positions in shares of associated corporations:

Director	Capacity	Type of Interests	Name of associated corporation	Numbers of shares/ percentage 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	332,016	0.054%
Mr. Zhang Si Min (Note (b))	Beneficial owner	Personal	Ankeen Enterprises Limited	15	15%
Mr. Yu Lin (Note (c))	Beneficial owner	Personal	Neptunus Bio-engineering	73,515	0.012%

Notes:

- (a) Mr. Zhang Si Min was interested in 0.054% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn was interested in approximately 67.5% of the entire issued share capital of the Company as at 30 September 2007.
- (b) Mr. Zhang Si Min held 15% of the entire issued capital of Ankeen Enterprises Limited ("Ankeen Enterprises"), which in turn was beneficially interested in approximately 41.9% of the entire issued share capital of Shenzhen Neptunus Group Company Limited ("Neptunus Group"), which in turn was beneficially interested in approximately 34.38% of the entire issued share capital of Neptunus Bio-engineering, which in turn was beneficially interested in approximately 67.5% of the entire issued share capital of the Company as at 30 September 2007.
- (c) Ms. Yu Lin was interested in 0.012% of the entire issued share capital of Neptunus Bio-engineering, the controlling shareholder of the Company, which in turn was interested in approximately 67.5% of the entire issued share capital of the Company as at 30 September 2007.

Save as disclosed above, as at 30 September 2007, none of the Directors, supervisors or chief executives of the Company nor their respective associates held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors regarding the securities of their listed issuer as referred to in Rules 5.46 of the GEM Listing Rules.



## DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during the Relevant Period had any of the Directors and supervisors of the Company or any of their spouses or their children under the age of 18 been allotted any shares of the Company, nor had they been granted any right to acquire shares of the Company; nor were the Company, its holding company, or any of its fellow subsidiaries a party to any arrangements enabling any Directors of the Company to acquire such rights of any other associated corporations.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as the Directors and supervisors of the Company are aware, as at 30 September 2007, the interests and/or short positions held by shareholders (not being a Director, a supervisor or a chief executive of the Company) in shares or underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO were as follows:

*Long positions in shares of the Company:*

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

Notes:

- (a) Neptunus Group was deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering as Neptunus Group was beneficially interested in approximately 34.38% of the entire issued share capital of Neptunus Bio-engineering.
- (b) Ankeen Enterprises was deemed to be interested in the 639,000,000 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 34.38% of the entire issued share capital of Neptunus Bio-engineering.



- (c) Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in the 639,000,000 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 34.38% of the entire issued share capital of Neptunus Bio-engineering.
- (d) Ms. Li Li ("Ms. Li") was deemed to be interested in the 47,671,000 domestic shares of the Company held by Mr. Chai Xiang Dong as Ms. Li is the spouse of Mr. Chai Xiang Dong and was taken to be beneficially interested in any shares in which Mr. Chai Xiang Dong was interested.

Save as disclosed above, the Directors and supervisors of the Company are not aware of any other persons (except the Directors, supervisors or chief executives of the Company) who held any interests or short positions in the shares and underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO as at 30 September 2007.

### **PURCHASE, REPURCHASE OR SALE OF LISTED SHARES OF THE COMPANY**

The Company or its subsidiary has not purchased, repurchased or sold any of the Company's listed securities during the Relevant Period.

### **COMPLIANCE ADVISER'S INTEREST**

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 the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the Company's financial results for the year ending 31 December 2007. First Shanghai is paid for acting as the Company's compliance adviser.

As at 30 September 2007, as notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the shares of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the shares of the Company as at 30 September 2007.



## COMPETING INTERESTS

On 21 August 2005, Neptunus Bio-engineering, the controlling shareholder of the Company, entered into certain agreements with the Company, including the relevant non-competition undertakings and investment priorities (the "Non-Competition Undertakings"), pursuant to which Neptunus Bio-engineering, *inter alia*, had undertaken to the Company and its associates that as long as the securities of the Company are listed on GEM:

1. it will not, and will procure its associates not to whether within or outside the PRC, directly or indirectly (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, or produce any products, the usage of which is the same as or similar to that of the products of the Company, and which may constitute direct or indirect competition with the business operated by the Company from time to time; and
2. it will not, and will procure its associates not to hold any interest, whether within or outside the PRC, in any company or organization (directly or indirectly, other than 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, during the term of such Undertakings, when Neptunus Bio-engineering or its associates enter into any negotiations, within or outside PRC, in relation to any new investment project which may compete with the existing and future business of the Company, the Company shall have a preferential right of investment in such new investment projects.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDIT COMMITTEE

The Company established an Audit Committee on 21 August 2005 in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports, and to provide suggestions and opinions thereon to the Board. In addition, the Audit Committee members will also meet with the management to review the accounting principles and practices adopted by the Company and to discuss matters relating to the auditing, internal control system and financial reporting process of the Company. The Audit Committee comprises one non-executive Director, namely Ms. Yu Lin and two independent non-executive Directors, namely Mr. Yick Wing Fat, Simon and Mr. Poon Ka Yeung. Mr. Yick Wing Fat, Simon is the chairman of the Audit Committee.

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



## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

So far as the Directors are aware, the Company has complied with the requirements set out in Appendix 15 “The Code on Corporate Governance Practices” of the GEM Listing Rules during the Relevant Period. The Board will continue to govern and enhance the standards for corporate governance of the Company, and ensure the Company operates its business in an honest and responsible manner.

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

Shenzhen, the PRC, 10 November 2007

*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 Ms. Yu Lin and Mr. Ren De Quan; and the independent non-executive Directors are Mr. Yick Wing Fat, Simon, Mr. Poon Ka Yeung and Mr. Lu Sun.*