



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)

2008
Third Quarterly Report

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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 2008 (the "Relevant Period"), the turnover of the Company together with its subsidiary, Ascendent Bio-Technology Company Limited, (collectively the "Group") was approximately RMB11,850,000, which approximately equaled to that of the same period last year.
- During the Relevant Period, the loss attributable to equity holders of the Group was approximately RMB9,686,000 as compared to the loss attributable to equity holders of approximately RMB17,438,000 in the same period last year.
- During the Relevant Period, the loss per share of the Group was approximately RMB1.02 fen.
- The board of Directors (the "Board") of the Company 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 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and nine months ended 30 September 2008

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2008 (Unaudited) RMB'000	2007 RMB'000	2008 (Unaudited) RMB'000	2007 RMB'000
TURNOVER	4	4,221	4,691	11,850	11,992
Cost of sales		(2,413)	(1,892)	(6,374)	(4,284)
Gross profit		1,808	2,799	5,476	7,708
Other income	4	586	276	2,357	772
Selling and distribution expenses		(849)	(757)	(2,659)	(2,931)
Administrative expenses		(2,776)	(3,357)	(6,708)	(9,276)
Other operating expenses		(2,875)	(2,123)	(5,559)	(9,723)
LOSS FROM OPERATING ACTIVITIES	5	(4,106)	(3,162)	(7,093)	(13,450)
Finance costs	6	(926)	(1,277)	(2,593)	(3,988)
LOSS BEFORE TAX		(5,032)	(4,439)	(9,686)	(17,438)
Tax	7	—	—	—	—
LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		(5,032)	(4,439)	(9,686)	(17,438)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (RMB FEN)					
Basic	9	(0.53)	(0.47)	(1.02)	(1.84)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)*For the nine months ended 30 September 2008*

	Issued share capital RMB'000	Share premium account RMB'000	Statutory reserve fund RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2008	94,667	41,923	3,330	(38,463)	101,457
Loss for the period	—	—	—	(9,686)	(9,686)
At 30 September 2008	94,667	41,923	3,330	(48,149)	91,771
At 1 January 2007	94,667	41,923	3,330	(17,296)	122,624
Loss for the period	—	—	—	(17,438)	(17,438)
At 30 September 2007	94,667	41,923	3,330	(34,734)	105,186

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Corporate information

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

During the Relevant Period, the Group was principally engaged in the research and development of modern biological technology, the production and sale of cytokines category protein therapeutic drugs and vaccines for contagious diseases.

2. Basis of presentation and accounting policies

These unaudited condensed consolidated financial statements have been prepared based on Hong Kong Accounting Standards and the disclosure requirements of the GEM Listing Rules, which are consistent with the accounting policies adopted in the preparation of the audited financial statements of the Group for the year ended 31 December 2007.

These financial statements are denominated in Renminbi ("RMB") and based on historical cost method. Unless otherwise specifically stated, all amounts are presented in RMB'000. All values are rounded to the nearest thousand except when otherwise indicated.

3. Segment information

The Group conducts its business within one business segment, i.e., manufacturing and selling of 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 of the Group's revenue by geographical segment, as determined by the location of the customers, is as follows:

Nine months ended 30 September 2008 (unaudited)	PRC RMB'000	Pakistan RMB'000	Others* RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	9,252	2,345	253	11,850
Cost of sales	(5,390)	(902)	(82)	(6,374)
Gross profit	3,862	1,443	171	5,476
Nine months ended 30 September 2007 (unaudited)				
Segment revenue:				
Sales to external customers	9,872	1,936	184	11,992
Cost of sales	(3,831)	(420)	(33)	(4,284)
Gross profit	6,041	1,516	151	7,708

* Others include Indonesia and Hong Kong

4. Turnover and other income

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

An analysis of turnover and other income is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2008 (Unaudited) RMB'000	2007 RMB'000	2008 (Unaudited) RMB'000	2007 RMB'000
TURNOVER				
Sales of medicines	<u>4,221</u>	<u>4,691</u>	<u>11,850</u>	<u>11,992</u>
Other income				
Interests income on bank deposits	15	146	130	380
Subsidy income	375	130	530	392
Reversal of doubtful debts	196	—	1,690	—
Others	—	—	7	—
	<u>586</u>	<u>276</u>	<u>2,357</u>	<u>772</u>

5. Loss from operations

The Group's loss from operation is arrived at after charging or (crediting):

	For the three months ended 30 September		For the nine months ended 30 September	
	2008 (Unaudited) RMB'000	2007 RMB'000	2008 (Unaudited) RMB'000	2007 RMB'000
Cost of inventories sold	1,304	1,340	4,760	3,281
Recognition of prepaid land lease payments*	46	45	136	136
Depreciation	459	1,002	2,032	3,260
Amortisation of intangible assets	673	1,069	2,018	3,207
Research and development costs**	2,128	1,465	3,094	5,068
Minimum lease payments under operating leases in respect of land and buildings	31	265	377	647
Auditors' remuneration	322	160	546	543
Employment costs (including Directors' remuneration):	3,849	3,711	11,414	11,117
Salaries and wages	3,580	3,472	10,711	10,475
Pension scheme contributions	269	239	703	642
Impairment loss on bad and doubtful debts**	174	68	358	570
Loss on disposal of properties, plant and equipment	8	—	61	—
	<u>8</u>	<u>—</u>	<u>61</u>	<u>—</u>

* These amounts have been included in "Cost of sales" on the face of the unaudited condensed consolidated income statement.

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

6. Finance costs

	For the three months ended 30 September		For the nine months ended 30 September	
	2008 (Unaudited) RMB'000	2007 RMB'000	2008 (Unaudited) RMB'000	2007 RMB'000
Interest on bank advances wholly repayable within five years	1,169	3,985	8,037	8,920
Less: Interest capitalized as cost of construction-in-progress	(243)	(2,708)	(5,444)	(4,932)
	926	1,277	2,593	3,988

7. Income Tax

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

The Company is located at the Shenzhen Special Economic Zone and is subject to a discount on corporate income tax rate of 15%. According to the relevant income tax law and regulations of the PRC, the Company is entitled to an exemption of corporate income tax for the first two years commencing from the first year it recorded taxable income after deducting tax losses brought forward, and for a 50% tax exemptions for the subsequent three years. Accordingly, the Company was entitled to a 50% exemption from income tax for the years ended 31 December 2005, 2006 and 2007.

As the Group has recorded losses during the Relevant Period, no provision for corporate income tax has been made.

On 16 March 2007, the PRC promulgated the "Corporate Income Tax Law of the PRC" ("New Tax Law") (Order No. 63 of the Chairman of the PRC). On 6 December 2007, the State Council of the PRC promulgated Implementation Regulation of the New Tax Law. The New Tax Law and the Implementation Regulation amended the tax rates from 33% to 25% commencing from 1 January 2008. For companies which are subject to 15% tax rates on its taxable profits obtained in the PRC commencing from 1 January 2008, the relevant tax rates will also be increased to 25% by 2012.

8. Dividends

The Board does not recommend the payment or declaration of any dividend for the Relevant Period (2007: Nil).

9. Loss per share

For the three month and nine month periods ended 30 September 2008, the calculation of basic loss per share was based on the loss attributable to equity shareholders of approximately RMB5,032,000 and RMB9,686,000 respectively (three-month and nine-month periods ended 30 September 2007: loss of approximately RMB4,439,000 and loss of RMB17,438,000 respectively) and 946,670,000 ordinary shares in issue for the three-month and nine-month periods ended 30 September 2008 (2007: 946,670,000 ordinary shares).

Diluted earnings per share for the three month and nine month periods ended 30 September 2008 and 2007 have not been calculated because no potential dilutive ordinary shares existed during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Relevant Period, the Group was principally engaged in the research and development of modern biological technology, the production and sale of cytokines category protein therapeutic drugs and vaccines for contagious diseases. During the Relevant Period, the Group mainly produced two drugs, namely recombinant human interferon $\alpha 2b$ ("rhIFN $\alpha 2b$ ") for injection, recombinant human interleukin-2 (125Ser) ("rhIL-2 (125Ser)") for injection, and sold three drugs, namely rhIFN $\alpha 2b$, rhIL-2 (125Ser) and subunit vaccine of influenza virus (the "influenza vaccine"). Of these, rhIFN $\alpha 2b$ for injection and rhIL-2 (125Ser) for injection were mainly sold in the PRC and partly exported to the Southeast Asian markets.

Influenza Vaccine Business

The influenza vaccine business is the key business currently developed by the Group. During the Relevant Period, the Group conducted further trials on the machinery equipment of the influenza vaccine project in Baoan, and proposed the optimization and improvement plans on certain production lines. The Group is currently focused on the upgrading of the production workshops of the Baoan manufacturing base up to the requirements of the PRC GMP certification. To make sure the Company's products are up to international standards, the Company plans to seek importation of internationally more advanced influenza vaccine production technology and management system.

Interferon and Interleukin Business

During the Relevant Period, sales of the Group's rhIFN $\alpha 2b$ for injection and rhIL-2 (125Ser) for injection were on an agency model. The sales quantity and turnover of the high specification products of these two products both increased as compared with the corresponding period of the previous year, reflecting the steady operation of the current agency sales model of the Group in the domestic market. In the meantime, the Group's self-constructed new interferon production line is also underway.

RESEARCH AND DEVELOPMENT

New product development

Following the completion of clinical research of rhIFN α 2b effervescent tablet, application for new medicine certificate has been made during the year by the SFDA and approval for production and new medicine certificate have been granted during the year. This project is currently at the stage of applying for GMP certification.

Patent

On 30 April 2008, the Company obtained the authorization for the South African patent for "interferon liposome cream", the cream containing interferon liposome (patent no. 2006-06309).

On 15 August 2008, the Company's "a vaginal interferon effervescent tablet and its preparation method" was granted invention patent by the State Intellectual Property Office, and the related patent registration procedures and patent certificates are under process.

PROSPECTS

International demand for influenza vaccine has been increasing in recent years. The Company will focus on international production management structures and product quality standards for influenza vaccine and strive to raise the production quality of its influenza vaccine products, so as to form a foundation for expansion into international markets at a later stage. For this purpose, the Company is also planning to introduce internationally advanced influenza vaccine production technology system and management system.

The Company will continue to invest in the research and development of new products so as to improve the existing product structure as well as minimizing operational risks.

In April 2008, the Company has received the written approval from the China Securities Regulatory Commission for the proposed placing of not more than 189,334,000 new H Shares to be issued. The Company is actively considering placing proposals.

FINANCIAL REVIEW

The Group's turnover for the Relevant Period was approximately RMB11,850,000, approximately equaled that in the corresponding period of last year. Turnover from the Group's principal product rhIFN α 2b for injection during the Relevant Period was RMB9,558,000, representing approximately 80.66% of the Group's total turnover.

During the Relevant Period, the gross profit and the gross profit margin of the Group were approximately RMB5,476,000 and 46.5% respectively, decreasing by approximately RMB2,232,000 and 17.78% respectively compared with that of the corresponding period of last year. The decrease in total gross profit was attributable to the increased production costs for products and the decreased selling price of the main products.

Selling and distribution costs of the Group for the Relevant Period amounted to approximately RMB2,659,000, decreasing by approximately RMB272,000 as compared with that of the corresponding period last year, representing a decrease of approximately 9.28%.

The administrative expenses of the Group for the Relevant Period amounted to approximately RMB6,708,000, decreasing significantly by approximately RMB2,568,000 from approximately RMB9,276,000 in the corresponding period last year, representing a decrease of approximately 27.68%. The decrease of administrative expenses was mainly attributed to the effect of reclassification of accounts and the intensive control of administrative expenses. Firstly, due to the adoption of a more detailed classification method by the Group, administrative expenses was transferred to Construction-In-Progress (CIP), and accordingly the administrative expenses decreased. Secondly, administrative expenses were reduced due to the implementation of more intensive control.

Other operating expenses of the Group for the Relevant Period amounted to approximately RMB5,559,000, decreasing by approximately RMB4,164,000 as compared with that of the corresponding period last year, representing a decrease of approximately 42.83%, mainly because last year the Group made a huge provision for account receivables and the Company recovered part of the receivables for previous years during the Relevant Period. Therefore, the Group made a write-back of provision previously provided to the extent of amounts recovered.

On the other hand, it was also because of the increase of intangible assets and the fact that any related development expenses could be capitalized during the Relevant Period, which approximately amounted to RMB1,327,000.

The Group's loss before tax for the Relevant Period was approximately RMB9,686,000, which was significantly decreased by approximately RMB7,752,000 compared to the loss of approximately RMB17,438,000 recorded for the same period of last year. The decrease in loss was mainly due to the reduction in the administrative expenses, collection of accounts receivable and reversal of the provisions made in the previous year.

As such, the loss attributable to the equity holders of the Company amounted to approximately RMB9,686,000 for the Relevant Period, compared with RMB17,438,000 as the loss attributable to the equity holders for the corresponding period last year.

LIQUIDITY AND FINANCIAL RESOURCES

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

Borrowings and banking facilities

As of 30 September 2008, the Group had total bank financing liabilities of approximately RMB124,000,000, all of which are long-term bank borrowings. Entrusted loans from the Company's controlling shareholders were approximately RMB78,000,000.

On 23 May 2006, the Company entered into a long-term loan agreement (the "CDB Loan Agreement") with China Development Bank ("CDB") for the grant by CDB of a loan of RMB130,000,000 (the "CDB Loan") to the Company for a term of eight years (from 24 May 2006 to 23 May 2014) to finance the Company's project on influenza vaccine (the "Loan 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 to the pledge of the domestic shares of the Company currently held by them to CDB) to secure the CDB Loan. The Company would apply the revenue from the Loan Project to repay the CDB Loan by installments.

During the Relevant Period, the Company has repaid RMB6,000,000 to CDB pursuant to the terms of the CDB Loan Agreement.

Shareholder's Entrusted Loans

The Company obtained a shareholder's entrusted loan of RMB9,000,000 from Neptunus Bio-engineering, its controlling shareholder (the "Entrusted Loan"). The calculation of loan interests shall make reference to the commercial bank loan rate for the same period. But the interest is waived by Neptunus Bio-engineering for the year. The Entrusted Loan 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. The due date of this Entrusted Loan is on 5 April 2009, but Neptunus Bio-engineering has undertaken to the Company that it would not demand repayment of the abovementioned Entrusted Loan unless and until: (1) the repayment of such Entrusted Loan would not adversely affect the operations of the Company and/or its business objectives as set out in the Prospectus of the Company; (2) each of the independent non-executive Directors is of the opinion that the repayment of such 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 of the Company, 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 entrusted loan amounting to RMB39,000,000 for a term of two years obtained by the Company from its controlling shareholder, Neptunus Bio-engineering, on 6 April 2007 was mainly used as a current working capital in the daily operating activities of the Company. The interest rate of the above shareholder's entrusted loan shall make reference to the commercial bank loan rate for the same period, to be repaid together with the principal upon maturity of the shareholder's entrusted loan.

The shareholder's entrusted loan of RMB30,000,000 obtained on 26 March 2008 was mainly used for the Company's repayment of the Entrusted Loan arranged by the Company and the Industrial Bank of China and an independent third party which matured in March 2008. The Company shall repay the aforementioned shareholder's entrusted loan of RMB30,000,000 within 15 working days after the completion of the issue of additional new H Shares by the Company. The interest rate of the above shareholder's entrusted loan shall make reference to the commercial bank loan rate for the same period to be repaid together with the principal upon maturity of the shareholder's entrusted loan.

On 18 March 2008, Neptunus Bio-engineering, the controlling shareholder of the Company, has undertaken to the Company that in the year of 2008, if the Company has no sufficient working capital to satisfy its current needs, Neptunus Bio-engineering will provide suitable financial aids to satisfy the Company's continued operation capabilities in 2008. During the Relevant Period, the Company has not encountered any insufficiency in its working capital.

THE CDB LOAN AGREEMENT AND THE ENTRUSTED LOAN

Specific performance obligations by the controlling shareholder

The CDB Loan Agreement imposes specific performance obligations on the Company and Neptunus Bio-engineering as conditions precedent to the drawdown of monies by the Company under the CDB Loan. The CDB Loan Agreement requires Neptunus Bio-engineering to enter into an Agreement on Pledge of Shares with CDB and to act as a guarantor with joint liabilities 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 shall remain valid during the term of the CDB Loan, that Neptunus Bio-engineering would not be in breach of any provisions of the CDB Loan Agreement and that there would not be any circumstances in relation to the financial standing of Neptunus Bioengineering 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 shareholder's entrusted 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 the above 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 working days from acquiring new shares complete all the procedures required to perfect the pledge of the new shares. The Company will, if necessary, 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.

Gearing ratio

As at 30 September 2008, the gearing ratio of the Group was approximately 69.10% (end of 2007: 62%) and was calculated by a division of the total borrowings by total capital.

Pledge of assets

Pursuant to the pledge agreement entered into between the Company and CDB on 23 May 2005, 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 Loan Project with CDB, and to deposit all revenue derived from the Loan 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

The Group's transactions are mainly denominated in RMB, and the needs for liquidity and financing are regularly reviewed. During the Relevant Period, approximately 21.92% of the Group's operating revenue was denominated in US dollars and the remainder was denominated in RMB. The Group's major costs and capital expenditure were denominated in RMB. The Directors believe that although there are certain fluctuations in the exchange rate between US dollars and RMB during the year, the Group's exposure to changes in foreign currency risk is not substantial. Therefore, the Group has not adopted any financial instrument for hedging purposes.

Contingent Liability

As at 30 September 2008, the Group had no significant contingent liability.

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

As at 30 September 2008, 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:

Total 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
Chai Xiang Dong (<i>note 1</i>)	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Yu Jun (<i>note 2</i>)	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

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

Total long positions in shares of associated corporations of the Company:

Director	Capacity	Type of interests	Name of associated corporation	Number of shares/ percentage of shares in associated corporation	Approximate percentage of the associated corporation's issued share capital
Zhang Si Min (Note (a))	Beneficial owner	Personal	Neptunus Bio-engineering	360,693	0.055%
Zhang Si Min (Note (b))	Beneficial owner	Personal	Ankeen Enterprises Limited ("Ankeen Enterprises")	15	15%
Yu Lin (Note (c))	Beneficial owner	Personal	Neptunus Bio-engineering	79,864	0.012%

Notes:

- (a) Mr. Zhang Si Min was interested in 0.055% 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 issued share capital of the Company as at 30 September 2008.
- (b) Mr. Zhang Si Min held 15% of the issued share capital of Ankeen Enterprises which in turn was beneficially interested in approximately 41.9% interest in Shenzhen Neptunus Group Company Limited ("Neptunus Group"), which in turn was beneficially interested in approximately 32.535% interest in Neptunus Bio-engineering, which in turn was beneficially interested in approximately 67.5% of the issued share capital of the Company as at 30 September 2008.
- (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 issued share capital of the Company as at 30 September 2008.

Save as disclosed above, as at 30 September 2008, 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 granted or exercised any right to acquire interest in 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 2008, 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:

Total long positions in shares of the Company:

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

Notes:

- 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 32.535% of the entire issued share capital of Neptunus Bio-engineering.
- 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 32.535% of the entire issued share capital of Neptunus Bio-engineering.
- Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bioengineering as Ms. Wang was beneficially interested in 85% of the entire issued share capital of Ankeen Enterprises, which in turn was beneficially interested in approximately 41.9% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 32.535% of the entire issued share capital of Neptunus Bio-engineering.
- Ms. Li Li ("Ms. Li") was deemed to be interested in the 47,671,000 domestic shares of the Company held by Mr. Chai Xiang Dong as Ms. Li is the spouse of Mr. Chai Xiang Dong and was taken to be beneficially interested in any shares held by Mr. Chai Xiang Dong.

Save as disclosed above, the Directors and supervisors of the Company are not aware of any other persons (except the Directors, supervisors or chief executives of the Company) who held any interests or short positions in the shares 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 2008.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

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

COMPETING INTERESTS

On 21 August 2005, Neptunus Bio-engineering, the controlling shareholder of the Company, entered into an agreement with the Company containing undertakings relating to non-competition undertakings and priority investment (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 or by any means, participate in or operate any business which may constitute direct or indirect competition with the business operated by the Company from time to time, or produce any products, the usage of which is the same as or similar to that of the products of the Company (other than those indirectly held as a result of the equity interest in any listed company or its subsidiaries); and
2. it will not, and will procure its associates not to hold any interest, whether within or outside the PRC, in any company or organization (directly or indirectly), other than those indirectly held as a result of its equity interest in any listed company or its subsidiaries, when the business of such company or organisation will (or may) compete directly or indirectly with the business of the Company.

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

COMPETITION AND CONFLICT OF INTEREST

None of the directors, the management shareholders or substantial shareholders of the Company or any of its respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the three months ended 30 September 2008.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

So far as the Directors are aware, the Company has complied with all the requirements under the Code on Corporate Governance Practice set out in Appendix 15 to the GEM Listing Rules. The Directors will continue to govern and enhance the corporate governance standard of the Company, so as to ensure that the Company operates its business with an honest and responsible attitude.

By order of the Board

Shenzhen Neptunus Interlong Bio-technique Company Limited

Zhang Si Min

Chairman

Shenzhen, the PRC, 6 November 2008

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