



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)

**2009**

First Quarterly Report

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

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

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

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (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 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.*

**QUARTERLY RESULTS (UNAUDITED)**

The Board of Directors (the "Board") of the Company is pleased to present the unaudited consolidated results of the Company and its subsidiary (the "Group") for the three months ended 31 March 2009 (the "Quarter"), together with the unaudited comparative figures for the corresponding period of 2008.

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

For the three months ended 31 March 2009

	Note	For the three months ended 31 March	
		2009 (Unaudited) RMB'000	2008 RMB'000
REVENUE	3	<b>2,767</b>	3,619
Cost of sales		<b>(1,276)</b>	(1,315)
GROSS PROFIT		<b>1,491</b>	2,304
Other income	3	<b>129</b>	1,644
Selling and marketing expenses		<b>(1,057)</b>	(1,138)
Administrative expenses		<b>(2,491)</b>	(2,363)
Other operating expenses		<b>(635)</b>	(1,189)
LOSS FROM OPERATING ACTIVITIES	4	<b>(2,563)</b>	(742)
Finance costs	5	<b>(2,526)</b>	(756)
LOSS BEFORE TAX		<b>(5,089)</b>	(1,498)
Tax	6	<b>—</b>	—
LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<b>(5,089)</b>	(1,498)
LOSS PER SHARE (RMB FEN)			
Basic	8	<b>(0.54)</b>	(0.16)

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

For the three months ended 31 March 2009

	Issued share capital RMB'000	Share premium account RMB'000	Statutory surplus 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	—	—	—	(1,498)	(1,498)
At 31 March 2008	<u>94,667</u>	<u>41,923</u>	<u>3,330</u>	<u>(39,961)</u>	<u>99,959</u>
At 1 January 2009	94,667	41,923	3,330	(69,058)	70,862
Loss for the period	—	—	—	(5,089)	(5,089)
<b>At 31 March 2008</b>	<b><u>94,667</u></b>	<b><u>41,923</u></b>	<b><u>3,330</u></b>	<b><u>(74,147)</u></b>	<b><u>65,773</u></b>



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Corporate information

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

### 2. Basis of presentation and accounting policies

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements are based on Hong Kong Generally Accepted Accounting Principles, and in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants, including Hong Kong Accounting Standards and interpretations, as well as the disclosure requirements of Hong Kong Companies Ordinance and chapter 18 of the GEM Listing Rules, which are in line with the accounting policies adopted in the preparation of the Company's audited financial statements for the year ended 31 December 2008.

The financial statements are denominated in Renminbi ("RMB"), and based on historical cost method. Unless otherwise specifically stated, all amounts are presented in RMB'000.

### 3. Revenue and other income

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

An analysis of revenue and other income is as follows:

	For the three months ended 31 March	
	2009 (Unaudited) RMB'000	2008 RMB'000
Revenue		
Sales of medicines	2,265	3,619
R&D Income	502	—
	<u>2,767</u>	<u>3,619</u>
Other income and gain		
Bank interest income	3	72
Government subsidy	105	75
Reversal of provision for doubtful debts	—	1,494
Others	21	3
	<u>129</u>	<u>1,644</u>

#### 4. Loss from operating activities

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

	For the three months ended 31 March	
	2009	2008
	(Unaudited)	
	RMB'000	RMB'000
Cost of inventories sold	1,276	1,315
Recognition of prepaid land lease payments	45	45
Depreciation	1,196	850
Amortisation of intangible assets*	336	208
Research and development costs*	291	384
	<u>          </u>	<u>          </u>

\* These amounts are included in "Other operating expenses" in the condensed consolidated income statement.

#### 5. Finance costs

	For the three months ended 31 March	
	2009	2008
	(Unaudited)	
	RMB'000	RMB'000
Interest on bank loans repayable wholly within five years	2,526	3,351
Less: Interest of costs for works in progress capitalised	—	(2,595)
	<u>          </u>	<u>          </u>
	<u>2,526</u>	<u>756</u>

## 6. Tax

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

On 16 March 2007, the PRC government 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 promulgated Implementation Regulation of the New Tax Law. Pursuant to the New Tax Law and the Implementation Regulation, tax rates changed from 33% to 25% commencing from 1 January 2008. As the Group has recorded a loss during the Quarter, no provision for Corporate Income Tax has been made during the Quarter.

## 7. Dividends

The Board does not recommend the payment or declaration of any dividend for the Quarter (2008: Nil).

## 8. Loss per share

For the Quarter, calculation of basic loss per share is based on the net loss attributable to equity shareholders of the Company of approximately RMB5,089,000 (2008: RMB1,498,000) and 946,670,000 ordinary shares in issue during the Quarter (2008: 946,670,000 ordinary shares).

Diluted earnings per share for the three months periods ended 31 March 2008 and 31 March 2009 have not been presented because no potential dilutive ordinary shares existed during these periods.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the Quarter, the Group was principally engaged in the research and development of modern biological technology (the "R&D Business") and production and sales of cytokine therapeutic drugs (the "Cytokines Business"), including recombinant human interferon  $\alpha 2b$  for injection ("rhIFN $\alpha 2b$  for injection") and recombinant human interleukin-2 for injection (125Ser) ("rhIL-2 (125Ser) for injection") (the "Core Products") in the PRC. During the Quarter, the Group has suspended the production of subunit influenza vaccine and the Core Products, and also suspended the sales of subunit influenza vaccine. The Group has been selling the Core Products during the first two months of the Quarter but terminated the sales of the Core Products and the Cytokines Business on 16 March 2009. During the Quarter, the Group was also engaged in the development of the R&D Business and strived to seek international renowned pharmaceutical companies as cooperation partners for our influenza vaccines business operations in order to introduce advanced international production and quality management system and product quality standards for influenza vaccines.

### *Cytokines Business*

The sales and profit margin of the Core Products of the Company declined significantly and were not satisfactory during the Quarter. The decrease in sales income and profit margin of the Core Products is mainly attributable to the following reasons: (i) the change in environment of pharmaceutical market in the PRC; (ii) introduction of price reduction policies on drugs by the PRC government; and (iii) reduction in retail price and increase in production costs of the Core Products. The Company has set out the details of such reasons in its announcement published on 23 April 2009.

The GMP certificate for the Company's rhIL-2 (125Ser) for injection (one of the Core Products) expired on 23 December 2008. The amended State Drugs GMP Certification, Examination and Assessment Standards (《藥品 GMP 認證檢查評定標準》) ("2008 GMP Certification Standards") became effective on 1 January 2008. The GMP certification standards under the 2008 GMP Certification Standards are more stringent than the original standards. In order to continue the production of rhIL-2 (125Ser) for injection, the Company has to apply for a new GMP certificate for its production line in accordance with the 2008 GMP Certification Standards. To do so, the Company has to upgrade and reform its current production line. On the other hand, although the GMP certificate for the Company's rhIFN $\alpha 2b$  for injection (the other Core Product) will only expire on 29 December 2010, in order to improve the profitability of the Cytokines Business, the Board takes the view that it is imperative for the Company to upgrade its current production lines or establish new production lines in order to reduce production costs so as to enhance the market competitiveness of the Company's rhIFN $\alpha 2b$  for injection and to comply with the 2008 GMP Certification Standards. The Board estimates that the investment in upgrading or constructing new production lines for these two Core Products will be substantial and it will take at least one year before the Company can obtain the new GMP certificates.



Given that (i) the performance of the Cytokines Business is unsatisfactory; (ii) substantial costs and time are required to increase its profitability; and (iii) at least 55 employees have to be retained (and therefore the costs necessary to maintain such employees) to operate the Cytokines Business, the Company ceased the operation of such business on 16 March 2009 with a view that the Company could quickly achieve its goals in the reduction of fixed costs and better allocation of resources for the Group's business restructuring and expansion plans. As a result of the cessation, 29 employees (out of 55 employees engaged in the Cytokines Business) were dismissed in 31 March 2009 in accordance with the requirements of the PRC Labour Contract Law, and 10 out of the remaining 26 employees will be re-deployed to the R&D Business and the rest of them will be transferred to other companies within the group of Shenzhen Neptunus Bio-engineering Company Limited ("Neptunus Bio-engineering").

### *Influenza Vaccines Business*

The influenza vaccines business is a key business to be developed by the Group. On 20 November 2008, the Company entered into the Cooperation Agreement (the "Cooperation Agreement") for the establishment of the JV Company ("JV Company") with GlaxoSmithKline Biological SA and GlaxoSmithKline Pte Ltd. (together "GSK"). The Company has satisfied most of the conditions precedent under the Cooperation Agreement, the Company is expected to sign the JV Contract (the "JV Contract") with GSK Pte between May and June 2009 and to establish the JV Company between July and August 2009. Upon the establishment of the JV Company, it will be beneficially owned by the Company and GSK Pte as to 60% and 40% respectively. The Board of the Company believes that the JV Company will become the operating subsidiary of the Company for the development of the influenza vaccines business.

The JV Contract provides that the term of the JV Company shall be ten years. The total investment of the JV Company shall be US\$ 99,900,000 (approximately HK\$774,000,000) and the registered capital of the JV Company shall be US\$78,330,000 (approximately HK\$607,000,000), of which US\$47,000,000 (approximately HK\$364,000,000, representing 60% of the equity interest in the JV Company) shall be contributed by the Company by way of the land use right of the parcel of land with a lot number of A607-0362 in Guangming New District and the buildings, plant, machines, equipment and intangible assets (including technology and proprietary rights in split influenza vaccine, subunit influenza vaccine and rabies vaccine); and US\$31,330,000 (approximately HK\$243,000,000, representing 40% of the equity interest in the JV Company) shall be contributed by GSK Pte in cash. The JV Company intends to make use of GSK's internationally advanced technology, quality management and operation systems and the large-scale production technology and adjuvant system technology (which are key manufacturing technologies for global first class vaccines) to develop and produce a series of influenza vaccines products, including split influenza vaccine, subunit influenza vaccine, improved influenza vaccine, adjuvanted influenza vaccine, 4-valent influenza vaccine and pre-pandemic flu vaccine and pandemic flu vaccines.

The JV Contract also provides that upon the first anniversary of the establishment date of the JV Company, GSK Pte shall purchase from the Company 9% of the equity interests in the JV Company for a consideration equivalent to 150% of the original value of such equity interests. On each subsequent anniversary of the establishment date of the JV Company, both of the JV parties shall discuss in good faith and agree on further increase of GSK Pte's equity interests in the JV Company by purchasing the equity interests held by the Company in the JV Company, provided however that, in case GSK Pte's equity interests are below fifty percent (50%) by the 5th anniversary of the establishment date, upon GSK Pte's request, the Company shall sell its equity interests to GSK Pte in such percentage as necessary for GSK Pte's equity interests in the JV Company to reach a minimum of fifty-one percent (51%) and a maximum of sixty percent (60%) of the registered capital.

### ***Disposal of Cytokines Business and acquisition of Fuzhou Neptunus Fuyao Pharmaceutical Company Limited ("Neptunus Fuyao")***

On 2 March 2009, the Company entered into a non-legally binding Letter of Intent ("Letter of Intent") with Neptunus Bioengineering and Shenzhen Neptunus Pharmaceutical Company Limited ("Neptunus Pharmaceutical"). Pursuant to the Letter of Intent, the parties intend to enter into the following transactions concurrently: (i) the Company intends to acquire and Neptunus Bio-engineering and Neptunus Pharmaceutical intend to sell to the Company the 75% and 5% equity interests held by them respectively in Neptunus Fuyao; (ii) the Company intends to sell and Neptunus Pharmaceutical intends to acquire the Cytokines Business and the relevant assets owned by the Company. The Letter of Intent has no legal binding effect on the parties. The legal due diligence on Neptunus Fuyao and the Cytokines Business has been completed. The parties are now finalizing the financial due diligence on Neptunus Fuyao and the Cytokines Business and they intend to enter into a formal sale and purchase agreement between June and July 2009. Subject to the obtaining of approval from the shareholders, the Company intends to complete such sale and purchase agreement by the second half of 2009.

According to the PRC audited accounts (prepared in accordance with the PRC Accounting Standards for Business Enterprises) of Neptunus Fuyao for the year ended 31 December 2007, net profit of Neptunus Fuyao as at 31 December 2007 was approximately RMB21,313,600. The Board considers that the acquisition of Neptunus Fuyao, if materialised, will improve the financial conditions of the Company significantly. The Board believes that Neptunus Fuyao will become the operating subsidiary of the Company for the development of generic drugs.

The Board would like to point out that the accounting principles adopted by the PRC audited accounts of Neptunus Fuyao were the PRC accounting principles, which are different from the accounting principles stipulated in Chapter 7 of the GEM Listing Rules. Therefore, the shareholders and potential investors of the Company must exercise caution if they rely on the results of Neptunus Fuyao contained in this report.

The Board confirms that as at the date of this report, no legal binding agreement in respect of the proposed transactions under the Letter of Intent has been executed and such proposed transactions may or may not be carried out and the shareholders and potential investors of the Company shall exercise caution when dealing in the H shares of the Company.

### *Expansion of the R&D Business*

As from January 2009, the Company has been focusing on the R&D Business and the expansion of the R&D Business by providing research and development services to Neptunus Bioengineering and its subsidiaries. After the cessation of the Cytokines Business, the R&D Business became the main source of revenue for the Company and generated a revenue of approximately RMB502,000 for the Company during the Quarter.

To achieve its expansion plans for the R&D Business, the Company is now carrying out the following works for its R&D Business: (i) renovation and upgrading works for the office and laboratory; and (ii) construction works for its production plant. The Company intends to enter into (i) a service agreement for the provision of services in the research and development of cytokines therapeutic drugs for a term of not less than five years to Neptunus Pharmaceutical in May 2009; and (ii) a service agreement for the provision of services in the research, development, animal testing, clinical trial and new drug's regulatory compliance and registration of various influenza vaccines for a term of not less than five years to the JV Company in July or August 2009. These two agreements will be on normal commercial terms to be determined on an arm's length basis.

### **PROSPECTS**

If the Company and GSK Pte can reach agreement on the establishment of the JV Company, the JV Company will be committed to the development of influenza vaccines business. With the combined experience, standing and expertise of the JV parties and the intangible assets provided by GSK, the JV Company can significantly increase its annual production capacity and produce high quality vaccines on a larger scale in a more cost effective way, so as to provide its products with a strong competitive advantage. With GSK's branding power in the industry, the Board expects to explore a more extensive network in overseas vaccine market. The Board believes that such global network will potentially fuel a significant revenue growth for the JV Company. The Board believes that the Company's equity interests in the JV Company will bring profits to the Company and enhance the Company's image and position in the global biological pharmaceutical industry.

The acquisition by the Company of the 80% equity interest in Neptunus Fuyao, if successful, will bring to the Group the operation qualification for the production and sales of various forms of medicine such as high-volume and low-volume injections, tablets, capsules, granules and powder. The Board believes this will contribute stable revenue to the Group in the future and lay a solid foundation for the Group's continuous operation and expansion.

If the Company is able to sign the above agreements with the JV Company and Neptunus Pharmaceutical, the Board estimates that these agreements will generate revenue for the Company of approximately RMB4,550,000 in 2009 and approximately RMB8,000,000 to RMB10,000,000 of revenue per year over the next five years. The Board therefore takes the view that the R&D Business will provide stable revenue for the Company in the coming few years.

## FINANCIAL REVIEW

Revenue of the Group for the Quarter amounted to approximately RMB2,767,000, representing a decrease of approximately RMB852,000 as compared with approximately RMB3,619,000 for the corresponding period last year. Revenue for the Quarter was mainly derived from sales income of the Core Products and revenue of the R&D services. Sales income and revenue of the R&D services accounted for 81.86% and 18.14% of the total revenue respectively.

Other revenue of the Group for the Quarter amounted to approximately RMB129,000, representing a decrease of approximately RMB1,515,000 as compared with the corresponding period last year. The decrease was mainly attributable to the recovery of trade receivables of the previous year which resulted in the reversal of the provision for doubtful debts of trade receivables in the amount of approximately RMB1,494,000 in the corresponding period last year. There was no such revenue for the Quarter.

Administrative expenses of the Group for the Quarter amounted to approximately RMB2,491,000, which is nearly the same as compared with the administrative expenses of approximately RMB2,441,000 for the corresponding period last year.

Other operational expenses of the Group for the Quarter amounted to approximately RMB635,000, representing a significant decrease of approximately RMB554,000 as compared with approximately RMB1,189,000 for the corresponding period last year. The decrease was mainly attributable to the decision of the Group to terminate the production of the Core Products during the Quarter whereas impairment loss had been provided for the value of related intangible assets in the last annual reporting period, and hence no amortisation for related intangible assets was required during the Quarter.

Finance costs of the Group for the Quarter amounted to approximately RMB2,526,000, representing a significant increase of approximately RMB1,770,000 as compared with approximately RMB756,000 for the corresponding period last year. The increase was mainly attributable to the fact that the Group's production plant in Baoan district of Shenzhen has obtained a Real Estate Title Certificate in September last year, so that the related asset has become fixed asset, and hence there was no capitalization of loan interest during the Quarter.

The Group's unaudited net loss attributable to equity shareholders for the Quarter amounted to approximately RMB5,089,000, representing a significant increase of approximately RMB3,591,000 as compared with the unaudited net loss attributable to equity shareholders of the Company of approximately RMB1,498,000 for the corresponding period last year. The main reasons for the increase were: (i) the Group's loan interest was not capitalized during the Quarter; (ii) the Group's other revenue decreased during the Quarter; and (iii) the Group decided to terminate the production of the Core Products during the Quarter and sales income from such products decreased accordingly.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group usually finances its operating and investing activities with its internal financial resources, financial assistance from the controlling shareholder and bank loans. The Group's transactions are mainly denominated in Renminbi and the Group reviews its working capital and finance requirements on a regular basis.

### Borrowings and banking facilities

As at 31 March 2009, the Group's bank facilities debt was RMB120,000,000, all of which was long-term bank borrowings. The Group's controlling shareholder's entrusted loans obtained through the entrusted arrangement with banks were 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 to finance the Company's project on subunit vaccine of influenza virus (the "Loan Project"). Pursuant to the CDB Loan Agreement, CDB requires the Company, the Company's controlling shareholder Neptunus Bio-engineering, and Mr. Chai Xiang Dong, management shareholder of the Company, to provide guarantee and securities (including 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 obtained from the Loan Project to repay the CDB Loan with CDB by instalments. During the Quarter, the Company repaid interest of RMB1,871,100 to CDB in accordance with the repayment schedule stipulated in the CDB Loan Agreement.

### Shareholder's entrusted loans

Shareholder's entrusted loans obtained by the Company from Neptunus Bio-engineering as at 31 March 2009 amounted to approximately RMB 78,000,000.

The Company obtained a shareholder's entrusted loan of RMB9,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank. This shareholder's entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009. However, Neptunus Bio-engineering had undertaken to the Company that it would not demand repayment of the abovementioned shareholder's entrusted loan unless and until: (1) the repayment of such shareholder's entrusted loan would not adversely affect the operations of the Company and/or its business objectives as set out in the prospectus published by the Company on 29 August 2005 in relation to the listing of its H shares on GEM (the "Prospectus"); and (2) each of the independent non-executive directors was of the opinion that the repayment of such shareholder's entrusted loan would not adversely affect the operations of the Company and/or the implementation of its business objectives as set out in the Prospectus, and the Company would make an announcement in respect of the decision of the independent non-executive directors made under (2); and (3) the Company had a positive cash flow and had retained profits in the relevant financial year.

The Company obtained another shareholder's entrusted loan of RMB39,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank. This shareholder's entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009. However, Neptunus Bio-engineering had undertaken that the repayment date of this entrusted loan would be postponed to 5 April 2010 or the 15th working day after the completion of the issue of new H shares by the Company (whichever is earlier).

The Company also obtained a shareholder's entrusted loan of RMB30,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank on 26 March 2008. This shareholder's entrusted loan is unsecured, bears an annual interest of 7.47% and is repayable on 26 March 2009 or 15 working days after the completion of the issue of additional new H Shares by the Company (whichever is earlier). Neptunus Bio-engineering also had undertaken not to require the repayment of such entrusted loan until 26 March 2010 or the 15th working day after the completion of the issue of new H shares by the Company (whichever is earlier).

On 2 December 2008, Neptunus Bio-engineering undertook to the Company that it would provide the Company with new entrusted loans amounted to RMB60,000,000 to support the cooperation between the Company and GSK. The length of maturity of these entrusted loans would be one year at least or no earlier than the date of the 15th working day after completion of the new H shares placement (whichever is earlier).

On 2 December 2008, Neptunus Bio-engineering also undertook to the Company that, if the Company during 2009 had no sufficient working capital to satisfy its current needs, Neptunus Bioengineering would provide suitable financial assistance of up to RMB 30,000,000 to satisfy the Company's continued operation capabilities during 2009. During the Quarter, Neptunus Bioengineering provided non-interest-bearing financial assistance to the Company in a total amount of approximately RMB5,800,000.

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

### **Pledge of Shares by controlling shareholder**

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



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

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 loans to the Company amount to financial assistances to the Company by a connected person, the financial assistances have been entered into on normal commercial terms (or better terms to the Company) and the Company has not provided any security over its assets to Neptunus Bio-engineering. Consequently, the above financial assistances constitute exempt connected transactions under Rule 20.65(4) of the GEM Listing Rules and are exempt from reporting, announcement and independent shareholders' approval requirements.

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

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

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

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

## AMENDMENT AGREEMENT ENTERED INTO AFTER THE TERM OF THE CDB LOAN AGREEMENT

In order to obtain CDB's approval for the release of charges over the land use rights, properties, plants and equipments charged in favor of CDB, on 24 February 2009, the Company, Neptunus Bio-engineering and its controlling shareholder Shenzhen Neptunus Group Company Limited ("Neptunus Group") and Mr. Chai Xiang Dong entered into the Amendment Agreement for the CDB Loan Agreement (the "Amendment Agreement") with CDB. As a result of the execution of the Amendment Agreement, the Company shall open an account with CDB (the "Account") and shall deposit all future revenue generated by the Company, including but not limited to shareholder's dividends and distribution received from the JV Company (together, the "Shareholder's Income") and funds raised from any placing to be conducted by the Company in the future (the "Placing") to the Account. If after completion of the Placing the principal amount of the Loan and accrued interests (together, the "Outstanding Loan") have not been fully repaid, all the funds raised by the Company from the Placing shall be applied towards repayment of the Outstanding Loan. The Company shall apply (i) all the Shareholder's Income received from the JV Company; and (ii) the consideration received from GSK Pte for the transfer of the equity interest held by the Company in the JV Company; pursuant to the terms of the JV Contract towards repayment of the Outstanding Loan. All the revenue so deposited in the Account by the Company shall be subject to the supervision of CDB and shall be fully applied towards repayment of the Outstanding Loan. The Company shall authorise CDB to deduct the amount representing the Outstanding Loan directly from the Account until the Outstanding Loan has been fully repaid. The Amendment Agreement also provides that if the joint venture between the Company and GSK Pte turned out to be a failure, the Company shall continue to use the land use rights, properties and equipments legally owned by it to provide the guarantee and security in favour of CDB.

## NEPTUNUS GROUP GUARANTEE AGREEMENT

The Amendment Agreement also imposes specific performance obligations on Neptunus Group as conditions precedent for the Company to obtain CDB's approval for the release of charges. Pursuant to the Amendment Agreement, Neptunus Group entered into the Neptunus Group Guarantee Agreement in favour of CDB on 24 February 2009, pursuant to which Neptunus Group has agreed, among other things, (i) to provide a guarantee in favour of CDB to guarantee the repayment of all sums owing by the Company under the Loan Agreement and (ii) to ensure that the Outstanding Loan can be fully repaid in a punctual manner irrespective of whether or not the JV Company under the JV Contract is established.

Although the transaction contemplated under the Neptunus Group Guarantee Agreement amounts to the provision of financial assistance to the Company by a connected person, the financial assistance has been entered into on normal commercial terms (or better terms to the Company) and the Company has not provided any security over its assets to Neptunus Group. Consequently, the transaction contemplated under the Neptunus Group Guarantee Agreement constitutes an exempt connected transaction under Rule 20.65(4) of the GEM Listing Rules and is exempt from reporting, announcement and independent shareholders' approval requirements.

## SUBSEQUENT EVENTS OF THIS QUARTER

On 15 April 2009, Neptunus Bio-engineering and Longgang Branch of Shenzhen Development Bank Company Limited (“SDB”) entered into a Consolidated Credit Facilities Agreement (綜合授信額度合同) (the “Credit Facilities Agreement”). Pursuant to the Credit Facilities Agreement, SDB granted to Neptunus Bio-engineering credit facilities of up to RMB40,000,000 (the “Maximum Credit Facilities”) and Neptunus Bio-engineering subsequently assigned part of the Maximum Credit Facilities (up to RMB30,000,000) to the Company. The Company is now applying to SDB for a loan of RMB30,000,000 (the “SDB Loan”) for a term of one year in accordance with the terms of the Credit Facilities Agreement.

As security for the SDB Loan and the Maximum Credit Facilities, Neptunus Bio-engineering and Neptunus Pharmaceutical charged their properties and entered into a Maximum Amount Security and Guarantee Agreement (最高額抵押擔保合同) (the “Security and Guarantee Agreement”) in favour of SDB on 15 April 2009. Although the transactions contemplated under the Security and Guarantee Agreement amount to the provision of financial assistances to the Company by connected persons, the financial assistances have been entered into on normal commercial terms (or better terms to the Company) and the Company has not provided any security over its assets to Neptunus Bio-engineering and Neptunus Pharmaceutical. Consequently, the transactions contemplated under the Security and Guarantee Agreement constitute exempt connected transactions under Rule 20.65(4) of the GEM Listing Rules and are exempt from reporting, announcement and independent shareholders’ approval requirements.

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

As at 31 March 2009, 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 the 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 their transactions in the securities of their listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

*Long positions in the shares of the Company:*

Director/supervisor	Capacity	Type of interests	Number of Domestic Shares held	Approximate Percentage of All the Domestic Shares	Approximate Percentage of the Company's Issued Share Capital
Mr. Chai Xiang Dong (Note (a))	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Mr. Yu Jun (Note (b))	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

- (a) Executive Director and general manager of the Company
- (b) Supervisor and employee of the Company

Long positions in shares of associated corporations of the Company:

<b>Director</b>	<b>Capacity</b>	<b>Type of interests</b>	<b>Name of Associated Corporation</b>	<b>Number of Shares/ Percentage of Shares of Associated Corporation</b>	<b>Approximate Percentage of Shareholding</b>
Mr. Zhang Si Min (Note (a))	Beneficial owner	Personal	Neptunus Bio-engineering	360,693	0.055%
Mr. Zhang Si Min (Note (b))	Beneficial owner	Personal	Ankeen Enterprises Limited ("Ankeen Enterprises")	15	15%
Ms. Yu Lin (Note (c))	Beneficial owner	Personal	Neptunus Bio-engineering	79,864	0.012%

Notes:

- (a) Mr. Zhang Si Min was beneficially interested in 0.055% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn was beneficially interested in approximately 67.5% of the issued share capital of the Company as at 31 March 2009.
- (b) Mr. Zhang Si Min held 15% of the issued capital of Ankeen Enterprises, which in turn was beneficially interested in approximately 41.9% of the entire share capital of Neptunus Group, which in turn was beneficially interested in approximately 32.535% of the entire share capital of Neptunus Bio-engineering. Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group. Neptunus Group was in turn beneficially interested in approximately 67.5% of the issued share capital of the Company as at 31 March 2009.
- (c) Ms. Yu Lin was beneficially interested in 0.012% of the issued share capital of Neptunus Bio-engineering, which in turn was beneficially interested in approximately 67.5% of the issued share capital of the Company as at 31 March 2009.

Save as disclosed above, as at 31 March 2009, none of the Directors, supervisors or chief executives of the Company nor their respective associates held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the "required standard of dealings" for directors regarding their transactions in the securities of their listed issuer as set out in Rule 5.46 of the GEM Listing Rules.

## SHARE OPTION SCHEME, CONVERTIBLE SECURITIES AND WARRANTS

Up to 31 March 2009, the Company and its subsidiary have not adopted any share option scheme and have not granted any option, convertible securities, warrants or other similar rights.

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

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as the Directors and supervisors of the Company are aware, as at 31 March 2009, the interests and/or short positions held by shareholders (not being a Director, a supervisor or a chief executive of the Company) in shares or underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO were as follows:

*Long positions in the shares of the Company:*

<b>Name of Substantial Shareholder</b>	<b>Capacity</b>	<b>Number of Domestic Shares held</b>	<b>Approximate Percentage of All 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 639,000,000 domestic shares 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 and Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group.
- (b) Ankeen Enterprises was deemed to be interested in 639,000,000 domestic shares 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. Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group.

- (c) Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in 639,000,000 domestic shares 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 Bioengineering, Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group.
- (d) Ms. Li Li ("Ms. Li") was deemed to be interested in 47,671,000 domestic shares held by Mr. Chai Xiang Dong as Ms. Li is the spouse of Mr. Chai Xiang Dong and was taken to be interested in any shares held by Mr. Chai Xiang Dong.

Save as disclosed above, the Directors are not aware of any other persons (except the Directors, supervisors or chief executives of the Company) who, as at 31 March 2009, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## **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 Quarter.

## **COMPETING INTERESTS**

On 21 August 2005, Neptunus Bio-engineering, entered into an agreement with the Company containing undertakings relating to non-competition and preferential rights of investments (the "Non-Competition Undertakings"), pursuant to which Neptunus Bio-engineering, 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 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.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the Quarter, 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 specific enquiry of all the Directors, all the Directors have confirmed that they have not conducted any transaction in respect of the Company’s securities during the Quarter and the Company is not aware of any non-compliance by any of the Directors with the “required standard of dealings” and the Company’s code of conduct regarding securities transactions by the Directors.

## AUDIT COMMITTEE

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

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

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

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

On behalf of the Board

**Shenzhen Neptunus Interlong Bio-technique Company Limited**

**Zhang Si Min**

*Chairman*

Shenzhen, the PRC, 11 May 2009

*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.*