



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

FIRST QUARTERLY REPORT 2010

* For identification purpose only

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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.

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, Ascendent Bio-Technology Company Limited and its jointly controlled entity Shenzhen GSK-Neptunus Biologicals Co., Ltd. ("GSK-Neptunus") (collectively the "Group") for the three months ended 31 March 2010 (the "Quarter"), together with the unaudited comparative figures for the corresponding period of 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

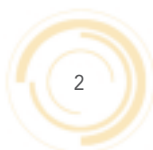
For the three months ended 31 March 2010

	Note	For the three months ended 31 March	
		2010 (Unaudited) RMB'000	2009 RMB'000
TURNOVER	4	763	2,767
Cost of sales		(609)	(1,276)
GROSS PROFIT		154	1,491
Other income	4	1,061	129
Selling and distribution costs		—	(1,057)
Administrative expenses		(5,343)	(2,491)
Other operating expenses		(1,065)	(635)
LOSS FROM OPERATIONS		(5,193)	(2,563)
Finance costs	6	(3,826)	(2,526)
LOSS BEFORE TAXATION	5	(9,019)	(5,089)
Income tax	7	—	—
LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY		(9,019)	(5,089)
LOSS PER SHARE			
Basic (RMB cents)	9	(0.95)	(0.54)
Diluted (RMB cents)	9	(0.95)	(0.54)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 31 March 2010

	For the three months ended 31 March	
	2010	2009
	(Unaudited)	
	RMB'000	RMB'000
LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY	(9,019)	(5,089)
Other comprehensive income/(loss)	<u>(30)</u>	<u>—</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY	<u><u>(9,049)</u></u>	<u><u>(5,089)</u></u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2010

	Share capital issued RMB'000	Share premium RMB'000	Statutory reserve fund RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	94,667	41,923	3,330	—	(69,058)	70,862
Comprehensive income						
Loss for the period	—	—	—	—	(5,089)	(5,089)
At 31 March 2009	<u>94,667</u>	<u>41,923</u>	<u>3,330</u>	<u>—</u>	<u>(74,147)</u>	<u>65,773</u>
1 January 2010	94,667	41,923	3,330	(35)	(106,534)	33,351
Comprehensive income						
Loss for the period	—	—	—	—	(9,019)	(9,019)
Other comprehensive income						
Exchange differences on translation of financial statements of a jointly controlled entity	—	—	—	(30)	—	(30)
At 31 March 2010	<u>94,667</u>	<u>41,923</u>	<u>3,330</u>	<u>(65)</u>	<u>(115,553)</u>	<u>24,302</u>

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.

2. Basis of presentation and accounting policies

The condensed consolidated financial statements for the three months ended 31 March 2010 have been prepared in accordance with the applicable disclosure provision of the GEM Listing Rules on the Stock Exchange, including compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of the condensed consolidated financial statements is in conformity with HKAS 34 requiring management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2009, except for the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs"). The condensed consolidated financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2009.

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. This condensed consolidated quarterly financial information was approved for issue on 7 May 2010.

This condensed consolidated quarterly financial information has not been audited.

3. Segment reporting

The Group manages its businesses by divisions. Pursuant to HKFRS 8 Operating Segment, in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- (i) manufacturing and selling medicine products; and
- (ii) providing research and development ("R&D") services of modern biological technology.

All our group's businesses above are currently operated in Mainland China.

(a) Segment results, assets and liabilities

Information provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance as at 31 March 2010 & 2009 is set out below.

As at 31 March	Manufacturing and selling medicine products		R&D services		Total	
	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	—	2,432	1,553	502	1,553	2,934
Inter-segment revenue	—	(167)	(790)	—	(790)	(167)
Reportable segment revenue	—	2,265	763	502	763	2,767
Reportable segment loss (adjusted EBITDA)	(4,513)	(1,026)	717	259	(3,796)	(767)
Interest income on bank deposits	27	3	—	—	27	3
Interest expenses	3,826	2,526	—	—	3,826	2,526
Depreciation and amortization						
-property, plant and equipment	1,182	1,020	563	176	1,745	1,196
-prepaid rent	122	45	—	—	122	45
-intangible assets	10	336	—	—	10	336
Reportable segment assets	318,840	291,091	16,619	6,823	335,459	297,914
Newly-added fixed assets for the period (other than non-current assets of financial assets and deferred tax assets)	2,140	1,917	—	735	2,140	2,652
Reportable segment liabilities	309,541	307,908	—	—	309,541	307,908

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

	2010 RMB'000	2009 RMB'000
Revenue		
Revenue from external customers	1,553	2,934
Elimination of inter-segment revenue	(790)	(167)
	<u>763</u>	<u>2,767</u>
consolidated turnover	<u>763</u>	<u>2,767</u>
	2010 RMB'000	2009 RMB'000
Loss		
Reportable segment loss	(3,796)	(767)
Elimination of inter-segment profit	—	—
	<u>(3,796)</u>	<u>(767)</u>
Reportable segment loss from external customers of our Group	(3,796)	(767)
Other income and revenue, net	1,061	129
Depreciation and amortization	(1,877)	(1,577)
Finance costs	(3,826)	(2,526)
Unallocated expenses of head office and company	(581)	(348)
	<u>(9,019)</u>	<u>(5,089)</u>
Consolidated loss before taxation	<u>(9,019)</u>	<u>(5,089)</u>
	2010 RMB'000	2009 RMB'000
Assets		
Reportable segment assets	335,459	297,914
Elimination of inter-segment receivables	(1,498)	(176)
	<u>333,961</u>	<u>297,738</u>
Unallocated assets of head office and company	—	—
Deferred tax assets	726	726
	<u>726</u>	<u>726</u>
Consolidated total assets	<u>334,687</u>	<u>298,464</u>
	2010 RMB'000	2009 RMB'000
Liabilities		
Reportable segment liability	309,541	307,908
Elimination of inter-segment payables	(1,498)	(176)
	<u>308,043</u>	<u>307,732</u>
Current tax liabilities	2,342	2,342
Unallocated liabilities of head office and company	—	—
	<u>2,342</u>	<u>2,342</u>
Consolidated total liabilities	<u>310,385</u>	<u>310,074</u>

4. Turnover and other income

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

An analysis of turnover and other income is as follows:

	For the three months ended 31 March	
	2010	2009
	(Unaudited)	
	RMB'000	RMB'000
Turnover		
Sale of medicines	—	2,265
R&D services income	763	502
	<u>763</u>	<u>2,767</u>
Other income & revenue		
Interest income on bank deposits	27	3
Government subsidy	1,006	105
Others	28	21
	<u>1,061</u>	<u>129</u>

5. Loss before taxation

Loss of the Group before taxation is arrived at after charging or (crediting):

	For the three months ended 31 March	
	2010	2009
	(Unaudited)	
	RMB'000	RMB'000
Salaries, wages and other benefits (including directors' emoluments)	2,582	1,315
Pension scheme contributions	127	1,315
Cost of sales	609	1,276
Recognition of prepaid land lease payments	122	45
Depreciation	1,745	1,196
Amortisation of intangible assets*	10	336
R&D costs*	1,054	291
	<u>1,054</u>	<u>291</u>

* 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 31 March	
	2010	2009
	(Unaudited)	
	RMB'000	RMB'000
Interest on bank advances wholly repayable within five years	3,826	2,526
	<u>3,826</u>	<u>2,526</u>

7. Income tax

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

The PRC enterprise income tax (the "EIT") for the Quarter is 25%. The EIT has not been provided for as the Group has incurred loss for the Quarter.

On 16 March 2007, the PRC government promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and Implementation Regulation has changed tax rates from 33% to 25% from 1 January 2008.

8. Dividends

The Board does not recommend the payment of any dividend for the Quarter (2009: Nil).

9. Loss per share

For the Quarter, the calculation of basic loss per share was based on the net loss attributable to owners of the Company of approximately RMB9,019,000 (2009: RMB5,089,000) and 946,670,000 ordinary shares in issue for the Quarter (2009: 946,670,000 ordinary shares).

Diluted earnings per share for the three months ended 31 March 2009 and 2010 are not calculated because there were no potential dilutive ordinary shares outstanding during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Quarter, the Group was principally engaged in the R&D of modern biological technology (the "R&D Business") in the PRC. During the Year 2009, the Group has suspended the production and sales of subunit influenza vaccine and cytokine therapeutic drugs including rhIFN α 2b for injection and rhIL-2 (125Ser) for injection (the "Cytokines Products"). As a result, the Group was engaged in the development of the R&D Business and strived to introduce advanced international production and quality management system and product quality standards for influenza vaccines to further develop its influenza vaccines business through GSK-Neptunus, which was established with GlaxoSmithKline Pte Ltd ("GSK").

Influenza Vaccine Business

The influenza vaccines business is a key business to be developed by the Group. On 9 June 2009, the Company and GSK entered into the joint venture contract (the "JV Contract"), pursuant to which GSK-Neptunus was subsequently established on 6 August 2009. Its scope of business includes: research, development, production and operation of human vaccines, and its drug production permit is valid till 6 July 2014. GSK-Neptunus is currently beneficially owned by the Company and GSK as to 60% and 40% respectively. The Board believes that GSK-Neptunus will become the operating subsidiary of the Company for the development of the influenza vaccines business.

The JV Contract provides that the term of GSK-Neptunus shall be ten years. According to the JV Contract and the articles of association of GSK-Neptunus, the total investment of GSK-Neptunus shall be US\$ 99,900,000 (approximately HK\$774,000,000) and the registered capital of GSK-Neptunus shall be US\$78,330,000 (approximately HK\$607,000,000), of which (i) US\$45,530,000 (approximately HK\$352,860,000) shall be contributed by the Company by injecting the land use right of the parcel of land with a lot number of A607-0362 in Guangming New District and the buildings, plant, machines, equipment and intangible assets (including technology and proprietary rights in split influenza vaccine, subunit influenza vaccine and rabies vaccine) to GSK-Neptunus; (ii) US\$1,470,000 (approximately HK\$11,390,000) shall be contributed by the Company in cash and the Company will hold 60% of the equity interest in GSK-Neptunus; (iii) US\$31,330,000 (approximately HK\$243,810,000) shall be contributed by GSK and GSK will hold 40% of the equity interest in GSK-Neptunus.

According to the verification report Shenyoulilianyanzi No. [2010] 006 (深友聯驗字[2010] 006號) in respect of capital contribution of US\$3,690,000 (approximately HK\$28,597,500) made by GSK-Neptunus issued by Shenzhen Youlian Certified Public Accountants Partnership on 5 February 2010. As at the date of this report, GSK-Neptunus has received total paid-up capital of US\$64,510,000 (approximately HK\$499,952,500), accounting for 82.35% of its total registered capital. The Company has fully performed its obligations under the JV Contract and GSK has made an aggregate capital contribution of US\$ 17,510,000 (approximately HK\$ 135,702,500) in cash.

GSK-Neptunus intends to make use of GSK's internationally advanced technology, quality management and operation systems and GSK's large-scale production technology and adjuvant system technology (which are core manufacturing technologies for global first class vaccines) to develop and produce a series of influenza vaccines products, including but not limited to split 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 GSK-Neptunus, GSK shall purchase from the Company 9% of the equity interests in GSK-Neptunus for a consideration equivalent to 150% of the original value of such equity interests. On each subsequent anniversary of the establishment date of GSK-Neptunus, both of the joint venture parties shall discuss in good faith and agree on further increase of GSK's equity interests in GSK-Neptunus by purchasing the equity interests held by the Company in GSK-Neptunus, provided however that, in case GSK's equity interests are below fifty percent (50%) by the 5th anniversary of the establishment date, upon GSK's request, the Company shall sell its equity interests to GSK in such percentage as necessary for GSK's equity interests in GSK-Neptunus to reach a minimum of fifty-one percent (51%) and a maximum of sixty percent (60%) of the registered capital of GSK-Neptunus.

During the Quarter, the Company is currently providing R&D services for the H1N1 influenza vaccine products of GSK-Neptunus. Such R&D services are provided under normal progress pursuant to the R&D service agreement. During the Quarter, the Company is in negotiation with GSK-Neptunus in respect of providing R&D services for more products. The influenza vaccine production base of GSK-Neptunus is currently adjusting and testing its system and equipments according to the influenza vaccine production process of GSK, which is expected to complete adjustment and carry out verification by the mid-term of 2010.

Cytokines Business

During the year 2009, the Company suspended cytokines business ("Cytokines Business"), including production and sales of Cytokines Products. In view of the smooth progress on business reorganization and the gradual development of the Company's R&D Business, the Company plans to either (i) dispose of its Cytokines Business; or (ii) expand the categories of its cytokines products and reactivate its Cytokines Business. During the Quarter, the Company expects to seek new opportunities to expand the categories of its cytokines products in order to reactivate its Cytokines Business.

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 Shenzhen Neptunus Bio-engineering Co., Ltd. (“Neptunus Bio-engineering”) 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; and (ii) the Company intends to sell and Neptunus Pharmaceutical intends to acquire the Cytokines Business and the relevant assets owned by the Company. The Letter of Intent has no legal binding effect on the parties. In the third quarter of the year 2009, the parties thereto have decided to postpone the negotiation about the said acquisition and sale under the Letter of Intent. During the Quarter, the parties thereto are considering choosing the proper time to re-negotiate such acquisition.

Expansion of the R&D Business

Since January 2009, the Company has been focusing on the R&D Business and the expansion of the R&D Business by providing R&D services to Neptunus Pharmaceutical, a subsidiary of Neptunus Bio-engineering. After the suspension of the Cytokines Business, the R&D Business became the main source of revenue for the Company and generated a revenue of approximately RMB1,622,000 for the Company during the Quarter.

PROSPECTS

The Company and GSK have established the joint venture company, GSK-Neptunus, which is now committed to the development of influenza vaccines business. With the combined experience, standing and expertise of the joint venture parties and the intangible assets provided by GSK, GSK-Neptunus can significantly increase its annual production capacity and produce high quality vaccines on a larger scale in a more cost-effective way, so as to provide its products with a strong competitive advantage. With the effect of GSK’s branding 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 GSK-Neptunus. The Board also believes that the Company’s equity interests in GSK-Neptunus will bring profits to the Company and enhance the Company’s image and position in the global biological pharmaceutical industry.

The Company has entered into a service agreement with each of Neptunus Pharmaceutical and GSK-Neptunus. The Board estimates that those agreements will generate revenue for the Company of approximately RMB6,000,000 to RMB9,000,000 per year over the next three years. The Board therefore takes the view that the R&D Business will provide stable revenue for the Company in the coming few years.

In respect of the Cytokines Business, the Company expects to seek new opportunities to expand the categories of its cytokines products in order to reactivate its Cytokines Business. Any further development of the Cytokines Business in new fields will have a positive effect on the prospect of the Company.

The Company is conducting the placement of new H shares, which is currently under the second stage of investigation by China Securities Regulatory Commission ("CSRC"). The Company is actively promoting the smoothness of placement and the approval is expected to be obtained from CSRC in relation to the placement of new H shares in the mid-year term of 2010.

FINANCIAL REVIEW

The Group's turnover for the Quarter was approximately RMB763,000, decreasing by approximately RMB 2,004,000 as compared to approximately RMB 2,767,000 in the corresponding period last year. The Group's turnover all derived from the revenue of R&D services.

The Group's other income for the Quarter was approximately RMB 1,061,000, increasing by approximately RMB 932,000 as compared to the corresponding period last year. The increase was mainly due to the research subsidy received by the Company on 25 December 2009 from the Shenzhen Bureau of Science, Technology and Information Council for financing a project on the research and commercialization of the vaccine for Influenza A H1N1 was partially recognized as revenue in the Quarter.

The Group's administrative expenses for the Quarter was approximately RMB5,343,000, increasing by approximately RMB2,852,000 as compared to the corresponding period last year. The increase was mainly attributable to (i) the significant increase in personnel costs for the Quarter as a result of the establishment of GSK-Neptunus on 6 August 2009 which increased the number of senior management staff significantly; and (ii) the increase in depreciation charges for the Quarter after some of the construction in progress of the Group were transferred to fixed assets.

The Group's other operating expenses for the Quarter were approximately RMB1,065,000, increasing by approximately RMB430,000 as compared to approximately RMB635,000 in the corresponding period last year, which was mainly due to the increase in the Group's R&D expenses for the Quarter.

Finance costs of the Group for the Quarter amounted to approximately RMB3,826,000, representing an increase of approximately RMB1,300,000 as compared to approximately RMB2,526,000 for the corresponding period last year. The increase was mainly attributable to (i) a loan of RMB30,000,000 from the Longgang Sub-branch of Shenzhen Development Bank Company Limited ("SDB") obtained by the Group in June 2009, resulting in an increase of new finance costs of approximately RMB398,000; and (ii) the financial assistance from Neptunus Bio-engineering, the Company's direct parent, were interest free in prior years and the Group didn't grant any security over the assets of the Group in respect of the financial assistance. Starting from this Quarter, the financial assistance from Neptunus Bio-engineering will bear interest on the basis of one-year loan interest rate stipulated by the bank for the corresponding period, resulting in an increase in new finance costs of approximately RMB820,000.

The unaudited net loss attributable to owners of the Company for the Quarter was approximately RMB9,019,000, significantly increasing by approximately RMB3,930,000 as compared to approximately RMB 5,089,000 in the corresponding period last year, mainly because of following reasons: (i) the Group's loan interest for the Quarter increased; (ii) the Group's administrative expenses for the Quarter increased and (iii) during the Quarter, the Group's revenue was only generated from R&D services and no revenue was generated from products sales.

LIQUIDITY AND FINANCIAL RESOURCES

The Group usually finances its operating and investing activities with its internal financial resources, financial assistance from controlling shareholders 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 2010, the Group's total indebtedness to banks was RMB136,000,000, of which RMB106,000,000 were long-term bank borrowings and RMB30,000,000 were short-term bank borrowings. Entrusted loans from the Company's controlling shareholder 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 guarantees and securities (including but not limited to pledging 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 by instalments. During the Quarter, the Company repaid interest of approximately RMB 1,592,000 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 2010 amounted to RMB78,000,000.

The Company obtained a shareholder's entrusted loan of RMB9,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank. This shareholder's entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009. Neptunus Bio-engineering undertook that the repayment date of this entrusted loan be postponed to 5 April 2011. However, Neptunus Bio-engineering had undertaken to the Company that it would not demand repayment of the above-mentioned shareholder's entrusted loan unless and until: (1) the repayment of such shareholder's entrusted loan would not adversely affect the operations of the Company and/or its business objectives as set out in the prospectus published by the Company on 29 August 2005 (the "Prospectus"); and (2) each of the independent non-executive Directors was of the opinion that the repayment of such shareholder's entrusted loan would not adversely affect the operations of the Company and/or the implementation of its business objectives as set out in the Prospectus, and the Company would make an announcement in respect of the decision of the independent non-executive Directors made under (2); and (3) the Company had a positive cash flow and had retained profits in the relevant financial year.

The Company obtained another shareholder's entrusted loan of RMB39,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank. This shareholder's entrusted loan is unsecured, bears an annual interest of 5% and is repayable on 5 April 2009. However, Neptunus Bio-engineering undertook that the repayment date of this entrusted loan be postponed to 5 April 2011.

The Company also obtained a shareholder's entrusted loan of RMB30,000,000 from Neptunus Bio-engineering through an entrusted arrangement with a bank on 26 March 2008. This shareholder's entrusted loan is unsecured, bears an annual interest of 7.47% and is repayable on 26 March 2009 or the 15th working day after the completion of the placing of new H shares by the Company (whichever is earlier). Neptunus Bio-engineering undertook that the repayment date of this entrusted loan be postponed to 26 March 2011.

On 2 March 2009, Neptunus Bio-engineering also undertook to the Company that, during 2010, if the Company had no sufficient working capital to satisfy its current needs, Neptunus Bio-engineering would provide suitable financial assistance of up to RMB30,000,000 to satisfy the Company's continued operation capabilities for 2010.

On 15 April 2009, Neptunus Bio-engineering entered into a Consolidated Credit Facilities Agreement (the "Facilities Agreement") with SDB. During the year 2009, Neptunus Bio-engineering provided a transfer credit loan of RMB30,000,000 granted by SDB under the Facilities Agreement to the Company (the "Credit Loan"), and in this Quarter, Neptunus Bio-engineering provided a financial assistance of RMB2,000,000 to the Company.

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 Bio-engineering's ability to provide security is weakened or the value of the pledged property decreases, the CDB Loan Agreement requires the Company to provide compensatory security within a time limit set by CDB and valid security agreements should be entered into between the security providers (including but not limited to the Company and Neptunus Bio-engineering) and CDB. The CDB Loan Agreement further requires Neptunus Bio-engineering and Mr. Chai Xiang Dong to provide an undertaking letter regarding the restriction on the dividend distribution by the Company. Neptunus Bio-engineering and Mr. Chai Xiang Dong have undertaken to strictly observe the conditions for distribution of dividends as provided in the CDB Loan Agreement. They have further undertaken to vote against any proposed resolution regarding the distribution of dividends in the shareholders' meeting of the Company in the event that such conditions as provided in the CDB Loan Agreement have not been satisfied.

Pledge of Shares by controlling shareholder

On 23 May 2006, Neptunus Bio-engineering entered into an Agreement on Pledge of Shares with CDB pursuant to which Neptunus Bio-engineering pledged 639,000,000 domestic shares in the Company 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 above-mentioned pledge and made an announcement on 24 May 2006 in respect of the pledge of shares by the controlling shareholder pursuant to Rule 17.19 of the GEM Listing Rules.

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

Maximum Amount of Pledge Guarantee Agreement

On 15 April 2009, Neptunus Bio-engineering and Neptunus Pharmaceutical entered into a Maximum Amount of Pledge Guarantee Agreement with SDB, pursuant to which Neptunus Bio-engineering and Neptunus Pharmaceutical provided guarantee and pledged their respective properties as security for the credit facilities under the Facilities Agreement (including the Credit Loan granted to the Company by SDB).

Although the Guarantee Agreement, the Agreement on Pledge of Shares and Maximum Amount of Pledge Guarantee Agreement executed by Neptunus Bio-engineering for the purpose of securing the CDB Loan, its shareholder's entrusted loans to the Company and the Credit Loan 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 above-mentioned pledged shares and to apply such proceeds to make up for the CDB Loan. The Company received a notice from Mr. Chai Xiang Dong regarding the aforesaid pledge of shares and made an announcement on 24 May 2006 in respect of the pledge of shares by Management Shareholder pursuant to Rule 17.43 of the GEM Listing Rules.

In addition, pursuant to the aforesaid Agreement on Pledge of Shares, if Mr. Chai Xiang Dong acquires new shares upon implementation of distribution plan to shareholders 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 procedures required to perfect the pledge of the new shares. The Company will, if required, make an announcement in respect of the aforesaid pledge of new shares in the Company by Mr. Chai Xiang Dong pursuant to Rule 17.43 of the GEM Listing Rules.

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

AMENDMENT AGREEMENT FOR THE CDB LOAN AGREEMENT

In order to obtain CDB's approval for the release of charges over the land use rights, properties, plants and equipments charged in favor of CDB, on 24 February 2009, the Company, Neptunus Bio-engineering and its controlling shareholder Shenzhen Neptunus Group Company Limited ("Neptunus Group") and Mr. Chai Xiang Dong entered into the Amendment Agreement for the CDB Loan Agreement (the "Amendment Agreement") with CDB. As a result of the execution of the Amendment Agreement, the Company shall open an account with CDB (the "Account") and shall deposit all future revenue generated by the Company, including but not limited to shareholder's dividends and distribution received from GSK-Neptunus (together, the "Shareholder's Income") and funds raised from any 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 GSK-Neptunus; and (ii) the consideration received from GSK for the transfer of the equity interest held by the Company in GSK-Neptunus; pursuant to the terms of the JV Contract towards repayment of the Outstanding Loan. All the revenue so deposited in the Account by the Company shall be subject to the supervision of CDB and shall be fully applied towards repayment of the Outstanding Loan. The Company shall authorise CDB to deduct the amount representing the Outstanding Loan directly from the Account until the Outstanding Loan has been fully repaid.

The Amendment Agreement also provides that if the joint venture between the Company and GSK turned out to be a failure, the Company shall continue to use the land use rights, properties and equipments legally owned by it to provide the guarantee and security in favour of CDB.

NEPTUNUS GROUP GUARANTEE AGREEMENT

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

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

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

As at 31 March 2010, the interests and short position of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the Securities and Futures Ordinance (“SFO”) (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the “required standard of dealings” for directors as set out in Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange 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 of the Company and employee of the Group.

Long positions in shares of associated corporations of the Company:

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

Notes:

- (a) Mr. Zhang Si Min was beneficially interested in 0.055% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn was beneficially interested in approximately 67.5% of the entire issued share capital of the Company as at 31 March 2010.
- (b) Mr. Zhang Si Min held 15% 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. Neptunus Bio-engineering and its directors were accustomed to act in accordance with the direction of Neptunus Group. Neptunus Bio-engineering was in turn beneficially interested in approximately 67.5% of the entire issued share capital of the Company as at 31 March 2010.
- (c) Ms. Yu Lin was beneficially interested in 0.012% of the entire issued share capital of Neptunus Bio-engineering, which in turn was beneficially interested in approximately 67.5% of the entire issued share capital of the Company as at 31 March 2010.

Save as disclosed above, as at 31 March 2010, none of the Directors, supervisors or chief executives of the Company nor their respective associates held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the "required standard of dealings" for directors as set out in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME, CONVERTIBLE SECURITIES AND WARRANTS

Up to 31 March 2010, 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 2010, the interests and/or short positions held by shareholders (not being a Director, a supervisor or a chief executive of the Company) in shares or underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO were as follows:

Long positions in the shares of the Company:

Name of Substantial Shareholder	Capacity	Number of domestic shares held	Approximate percentage of all the domestic shares	Approximate percentage of the Company's issued share capital
Neptunus Bio-engineering	Beneficial owner	639,000,000	90%	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 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 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 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. 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 of the Company held by Neptunus Bio-engineering as Ms. Wang was beneficially interested in 85% of the entire issued share capital of Ankeen Enterprises, which in turn was beneficially interested in approximately 41.9% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 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.
- (d) Ms. Li Li (“Ms. Li”) was deemed to be interested in 47,671,000 domestic shares of the Company held by Mr. Chai Xiang Dong as Ms. Li is the spouse of Mr. Chai Xiang Dong and was taken to be beneficially interested in any shares held by Mr. Chai Xiang Dong.

Save as disclosed above, the Directors and supervisor of the Company are not aware of any other persons (except the Directors, supervisor or Chief Executives of the Company) who, as at 31 March 2010, held interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

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

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, pursuant to which Neptunus Bio-engineering had undertaken to the Company and its associates (among others), that as long as the securities of the Company are listed on GEM:

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 in whatever form, or manufacture any products (the usage of which is the same as or similar to that of the products of the Company) which may constitute direct or indirect competition to the business operated by the Company from time to time; and
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, at a time when the Non-Competition Undertakings are subsisting, whenever Neptunus Bio-engineering or any its associates enters into any negotiations, within or outside the PRC, in relation to any new investment projects which may compete with the existing and future business of the Company, the Company will also be entitled to the preferential rights to participate in the investments in such new investment projects.

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” as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, all the Directors have confirmed that they have not conducted any transaction in respect of the Company’s securities during the Quarter. The Company is not aware of any violation by the Directors on 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, 7 May 2010

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.