



**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

2011

FIRST QUARTERLY REPORT

* 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

OPERATIONAL HIGHLIGHTS

- During the three months ended 31 March 2011 (the "Quarter"), the reported operational income in the Group's unaudited consolidated results increased by approximately 16,785% from the unaudited income of the corresponding period in 2010.
- During the Quarter, the Group recorded profit after tax of approximately RMB 4,743,000, the first time the Group had turned loss into gain since 2006.
- Prior to the date of this report, Shenzhen GSK-Neptunus Biologicals Co., Ltd., the Company's jointly controlled entity, had commenced trial production of influenza vaccines products.

This Quarter represents an important turning point for the Group. Previous consolidation of quality new assets and issuance of new shares laid a solid foundation for the continuous improvement in the Group's overall future development.

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 subsidiaries, Ascendent Bio-Technology Company Limited ("Ascendent"), Fuzhou Neptunus Fuyao Pharmaceutical Company Limited ("Neptunus Fuyao"), Taizhou Neptunus Bio-technique Company Limited ("Taizhou Neptunus") and its jointly controlled entity, Shenzhen GSK-Neptunus Biologicals Co., Ltd. ("GSK-Neptunus") (collectively the "Group") for the Quarter, together with the unaudited comparative figures for the corresponding period of 2010.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months ended 31 March 2011

	Note	For the three months ended 31 March	
		2011 RMB'000	2010 RMB'000
TURNOVER	4	128,836	763
Cost of sales		(85,408)	(609)
Gross profit		43,428	154
Other revenue	4	2,841	1,061
Selling and distribution expenses		(15,513)	—
Administrative expenses		(14,150)	(5,343)
Other operating expenses		(3,819)	(1,065)
PROFITS/(LOSS) FROM OPERATIONS		12,787	(5,193)
Finance costs	6	(4,317)	(3,826)
PROFITS/(LOSS) BEFORE TAXATION	5	8,470	(9,019)
Income tax	7	(3,727)	—
PROFITS/(LOSS) FOR THE PERIOD		4,743	(9,019)
Attributable to:			
Profit/(Loss) of owner of the Company		2,252	(9,019)
Profit/(Loss) for the period of non-controlling interests		2,491	—
Basic and diluted	9	RMB0.13 cents	RMB(0.95) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 31 March 2011

	Note	For the three months ended 31 March	
		2011 (Unaudited) RMB'000	2010 RMB'000
Profits/(Loss) for the period		4,743	(9,019)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD			
Exchange difference on translation of financial statements of a jointly controlled entity		—	(30)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		—	(30)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		4,743	(9,049)
Attributable to:			
Owner of the Company		2,252	(9,049)
Non-controlling interests		2,491	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		4,743	(9,049)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2011

	Issued share capital RMB'000	Share premium RMB'000	Attributable to owner of the Company			Accumulated profits/ (losses) RMB'000	Total RMB'000
			Capital reserve RMB'000	Statutory reserve fund RMB'000	Exchange reserve RMB'000		
At 1 January 2010	94,667	41,923	—	3,330	(35)	(106,534)	33,351
Comprehensive income							
Loss for the period	—	—	—	—	—	(9,019)	(9,019)
Exchange difference 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>—</u>	<u>3,330</u>	<u>(65)</u>	<u>(115,553)</u>	<u>24,302</u>
At 1 January 2011	167,800	554,844	(194,339)	8,302	(4,155)	(141,610)	390,842
Comprehensive income							
Profit for the period	—	—	—	—	—	2,252	2,252
At 31 March 2011	<u>167,800</u>	<u>554,844</u>	<u>(194,339)</u>	<u>8,302</u>	<u>(4,155)</u>	<u>(139,358)</u>	<u>393,094</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED 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 preparation and accounting policies

The unaudited condensed consolidated financial statements for the three months ended 31 March 2011 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 ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of the unaudited 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 unaudited 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 2010, 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 an annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2010.

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Company. There have been no significant changes to the accounting policy applied in these financial statements for the periods as a result of the developments.

This unaudited condensed consolidated interim financial information for the period ended 31 March 2011 comprise the Company, its subsidiaries and the Company's interest in a jointly controlled entity.

The measurement basis used in the preparation of the financial statement is the historical cost basis. These financial statements are presented in Renminbi ("RMB"), and it is also the functional currency of the Company and all amounts are rounded to the nearest thousand except where otherwise indicated.

The condensed consolidated statement of quarterly results has not been audited.

3. Segment reporting

The Group manages its businesses by divisions which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purpose 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
- (ii) providing research and development ("R&D") service of modern biological technology

Currently, all the above Group's activities are carried out in the PRC.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade payables, other payables and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing the assets is not measured.

The measure used for reporting segment profit is "adjusted EBITDA", that is "adjusted earnings before interest, taxes, depreciation and amortisation". To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue including inter-segment sales, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, and amortisation, and impairment loss and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment performance for the relevant period is set out below.

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment performance as at 31 March 2011 and 2010 is set out below.

As at 31 March	Manufacturing and selling medicine products		R&D services		Total	
	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	126,836	—	2,000	1,553	128,836	1,553
Inter-segment revenue	—	—	—	(790)	—	(790)
Reportable segment revenue	126,836	—	2,000	763	128,836	763
Reportable segment loss (adjusted EBITDA)	13,476	(4,513)	3,672	717	17,148	(3,796)
Interest income from bank deposit	203	27	50	—	253	27
Interest expenses	1,154	3,826	3,163	—	4,317	3,826
Depreciation and amortisation						
- Property, plant and equipment	3,353	1,182	1,672	563	5,025	1,745
- Prepaid lease payment	392	122	106	—	498	122
- Intangible assets	1,420	10	7	—	1,427	10
Reportable segment assets	566,681	318,840	425,353	16,619	992,034	335,459
Additions to fixed assets (i.e. non-current assets other than financial assets and deferred tax assets) during the period	2,675	2,140	43,087	—	45,762	2,140
Reportable segment liabilities	197,498	309,541	287,170	—	484,668	309,541

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

	2011 RMB'000	2010 RMB'000
Revenue		
Revenue from external customers	128,836	1,553
Elimination of inter-segment revenue	—	(790)
	<hr/>	<hr/>
Consolidated turnover	128,836	763
	<hr/> <hr/>	<hr/> <hr/>
Loss		
Reportable segment profit/(loss)	17,148	(3,796)
Elimination of inter-segment profit	—	—
	<hr/>	<hr/>
Reportable segment profit/(loss) derived from the Group's external customers	17,148	(3,796)
Other revenue and net revenue	2,841	1,061
Depreciation and amortisation	(6,950)	(1,877)
Finance cost	(4,317)	(3,826)
Unallocated head office and corporate expense	(252)	(581)
	<hr/>	<hr/>
Consolidated loss before taxation	8,470	(9,019)
	<hr/> <hr/>	<hr/> <hr/>
Assets		
Reportable segment assets	992,034	335,459
Elimination of inter-segment receivables	(485)	(1,498)
	<hr/>	<hr/>
	991,549	333,961
	<hr/> <hr/>	<hr/> <hr/>
Unallocated head office and corporate assets	60	—
Deferred tax assets	1,898	726
	<hr/>	<hr/>
Consolidated total assets	993,507	334,687
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Reportable segment liabilities	484,668	309,541
Elimination of inter-segment payables	(485)	(1,498)
	<hr/>	<hr/>
	484,183	308,043
	<hr/> <hr/>	<hr/> <hr/>
Current tax liabilities	8,416	2,342
Deferred tax liabilities	40,296	—
	<hr/>	<hr/>
Consolidated total liabilities	532,895	310,385
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4. Turnover and other revenue

The Group's turnover represents the net invoiced value of the goods sold net of value-added tax ("VAT") after allowances for returns and trade discounts. An analysis of turnover and other revenue is as follows:

	For the three months ended 31 March	
	2011	2010
	(Unaudited)	
	RMB'000	RMB'000
Turnover		
Sale of medicines	126,836	—
R&D service income	2,000	763
	128,836	763
Other revenue and gains		
Interest income on bank deposits	253	27
Government subsidy	2,244	1,006
Others	344	28
	2,841	1,061

5. Loss before taxation

Loss before taxation is arrived at after charging:

	For the three months ended 31 March	
	2011	2010
	(Unaudited)	
	RMB'000	RMB'000
Salaries, wages and other benefits (including Directors' emoluments)	10,983	2,582
Contributions to retirement plan	2,590	127
Cost of sales	84,442	609
Amortisation of interest in leasehold land held for own use under operating lease	498	122
Depreciation	5,025	1,745
Amortisation of intangible assets*	1,427	10
R&D costs*	2,349	1,054

* 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	
	2011	2010
	(Unaudited)	
	RMB'000	RMB'000
Interest on bank advances wholly repayable within five years	2,530	1,972
Interest on entrusted loans from the immediate parent company	481	1,033
Interest on financial assistance from the immediate parent company	1,306	821
	<u>4,317</u>	<u>3,826</u>

7. Income tax

Hong Kong profits tax has not been provided for as the Group had no income assessable to Hong Kong profit tax during the Quarter.

The Group's PRC enterprise income tax (the "EIT") for the Quarter is 25%. The Group provided for EIT of approximately RMB 3,727,000 for the Quarter.

8. Dividends

The Board does not recommend the payment of any dividend for the Quarter (2010: Nil).

9. Profit (loss) per share

During the Quarter, the calculation of basic profit/(loss) per share was based on the unaudited basic net profit per share attributable to owner of the Company of approximately RMB 2,252,000 (2010: loss of RMB 9,019,000) and 1,678,000,000 ordinary shares in issue for the Quarter (2010: 946,670,000 ordinary shares).

Diluted earnings per share for the three-month ended 31 March 2011 and 2010 equals to basic profit per share 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 various medicine businesses such as herbal medicine, generic drugs, transfusion and anti-tumor drugs, the influenza vaccines business and the R&D of modern biological technology (the "R&D Business"). In 2010, the Group entered into an agreement with Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering") and Shenzhen Neptunus Pharmaceutical Co., Ltd. ("Neptunus Pharmaceutical") in relation to the conditional acquisition of 75% and 5% equity interests in Neptunus Fuyao held by Neptunus Bio-engineering and Neptunus Pharmaceutical respectively ("Fuyao Equity Transfer Agreement"), with a view to rapidly expand its revenue source of the main businesses through the incorporation of several drug categories, including herbal medicine, generic drugs, transfusion and anti-tumor drugs, etc.. This acquisition was completed during the Quarter and the Company's revenue source of the main businesses was rapidly expanded. Also, during the Quarter, the Company engaged in the development of the R&D Business and was striving to introduce GSK's advanced production and quality management system and product quality standards in the global influenza vaccines field to further develop its influenza vaccines business through GSK-Neptunus, a joint venture company established with GlaxoSmithKline Pte Ltd ("GSK").

Neptunus Fuyao Business

The Company, Neptunus Bio-engineering and Neptunus Pharmaceutical entered into the Fuyao Equity Transfer Agreement in respect of the acquisition (the "Fuyao Acquisition") of 80% of the registered capital of Neptunus Fuyao on 16 July 2010, pursuant to which the Company conditionally agreed to purchase and Neptunus Bio-engineering and Neptunus Pharmaceutical conditionally agreed to sell 80% of the registered capital of Neptunus Fuyao at a consideration of RMB433,600,000, which shall be fully settled by the issue of 542,000,000 domestic shares of the Company to Neptunus Bio-engineering at an agreed issue price of RMB0.8 per share within 60 days after the completion of the Fuyao Acquisition and upon the completion of certain procedures relating to the issue and allotment of the domestic shares under the PRC laws.

In view of the reform in PRC's medical and hygiene system and PRC's "three main focuses" in the medical industry: "speeding up basic medical protection system", "setting up national basic medication system" and "provision of comprehensive basic medical and hygiene service system", the Board believes that the generic drugs market is and will be growing rapidly in the PRC and there will be a great development potential for such drugs. Neptunus Fuyao and its subsidiaries together own more than 40 production lines for 17 types of medications in dose form, all of which have passed the GMP qualifications and obtained the relevant national GMP certificates. In addition, Neptunus Fuyao and its subsidiaries together own more than 450 approvals in relation to the production of drugs, most of which are generic drugs. Thus the Board takes the view that Neptunus Fuyao has a great potential to develop in the medical industry under the current government policy and market circumstances and the acquisition of Neptunus Fuyao will provide the Company with good business potential.

During the Quarter, the Company completed all procedures required for the equity transfer of Neptunus Fuyao, following which Neptunus Fuyao became a subsidiary of the Company. During the Quarter, Neptunus Fuyao operated normally and recorded an income from principal business totaling approximately RMB 126,836,000.

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. At the end of the Quarter, GSK-Neptunus is beneficially owned by the Company and GSK as to 51% and 49% respectively.

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 interests 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 interests in GSK-Neptunus.

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. In 2010, the transfer of 9% equity interests in GSK-Neptunus between the Company and GSK was completed. At the end of the Quarter, GSK-Neptunus is beneficially owned by the Company and GSK as to 51% and 49% respectively.

GSK-Neptunus 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 core manufacturing technologies for global first class vaccines) to develop and produce a series of influenza vaccines products, including but not limited to 4-valent influenza vaccine and pandemic flu vaccines. During the Quarter, the influenza vaccine production base of GSK-Neptunus tested its system and equipments and currently the equipment preparation for trial operation is going smoothly.

Before the date of this report, GSK-Neptunus commenced the trial production of influenza vaccine products, this represents the influenza vaccine business has come into a new stage. If the trial production of GSK-Neptunus goes smoothly and when (i) all clinical tests, clinical verifications and GMP verifications are completed; and (ii) all requisite licenses and approvals for the sale and production of such influenza vaccine products are obtained from the relevant government authorities in China, such influenza vaccine products will be launched to the market in China.

Cytokines Business

During the year 2009, the Company suspended the cytokines business, including the production and sales of the cytokines products. In view of the smooth progress on the joint venture of influenza vaccine and the Fuyao Acquisition, the Company intends to expand the categories of its cytokines products by the way of co-operation, thus revitalizing its cytokines business. Taizhou Neptunus, our subsidiary established in Taizhou City, Jiangsu Province, the PRC, has a registered capital of RMB1,000,000, of which RMB800,000 was contributed by the Company and RMB200,000 was contributed by Neptunus Pharmaceutical. Taizhou Neptunus is owned as to 80% by the Company and 20% by Neptunus Pharmaceutical. The business scope of Taizhou Neptunus as set out in its business license is the R&D of biopharmaceutical products.

Taizhou Neptunus is carrying out the study on process optimization and the production of clinical samples of the product (recombinant human thymosin α 1 for injection), for which Neptunus Pharmaceutical has obtained the clinical approval. The Company expects that if Taizhou Neptunus makes good progress in the R&D of new types of cytokines products, it will consider carrying out the industrialization of such new products by way of joint venture.

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 R&D services to Neptunus Bio-engineering and its subsidiaries. The R&D Business generated a revenue of approximately RMB2,000,000 for the Company during the Quarter.

Subsequent Event

In April 2011, pursuant to the approved use of proceeds from new H share allotment and the Amendment Agreement for the CDB Loan Agreement entered into between the Company and China Development Bank ("CDB"), the Company used a portion of proceeds from the placement of new H shares to early repay all the principal amount of loan totaling RMB 86,000,000 and the interest thereon it owed to CDB. Pursuant to the CDB Loan Agreement (as defined below), Neptunus Bio-engineering, the controlling shareholder of the Company, and Mr. Chai Xiang Dong, management shareholder of the Company, respectively pledged 639,000,000 and 47,671,000 domestic shares in the Company to CDB. Currently, release procedures for the 639,000,000 domestic shares in the Company pledged by our controlling shareholder Neptunus Bio-engineering to CDB and the 47,671,000 domestic shares in the Company pledged by Mr. Chai Xiang Dong, management shareholder of the Company, to CDB are under way. As at the date of this report, the release procedures are still being handled.

FINANCIAL REVIEW

The Group's turnover for the Quarter was approximately RMB128,836,000, representing an increase of 16,785% from that of approximately RMB763,000 in the corresponding period last year. Turnover for the Quarter was mainly derived from sales income of medicine products of a subsidiary, Neptunus Fuyao, and revenue of the Company's R&D Business. Sales income and revenue of R&D Business accounted for approximately 98% and 2% of the total revenue respectively. The increase in turnover was because that Neptunus Fuyao became a subsidiary of the Company in December 2010 and its sales income of medicine for the Quarter was approximately RMB126,836,000.

The Group's gross profit and gross profit margin for the Quarter were approximately RMB43,428,000 and 34% respectively, increasing by RMB43,274,000 and 14% respectively compared with that of the corresponding period last year. The increase in gross profit was because that Neptunus Fuyao had become a subsidiary of the Company.

The Group's selling and distribution costs for the Quarter amounted to approximately RMB15,513,000, while no related expenses were incurred in the corresponding period last year as the Group recorded no sales of medicine.

The Group's administrative expenses for the Quarter amounted to approximately RMB14,150,000, increasing significantly by approximately RMB8,807,000 from approximately RMB5,343,000 in the corresponding period last year, representing an increase of approximately 165%. The increase in administrative expenses was because of two reasons: (i) Neptunus Fuyao, which became a subsidiary of the Company in December 2010, had administrative expenses of approximately RMB7,584,000 in the Quarter; and (ii) the Group completed the issuing and allotment of 189,330,000 new H shares and received net proceeds of approximately HK\$164,252,000 in 2010. Due to the foreign exchange control by Chinese government and the appreciation of Renminbi, an exchange loss of approximately RMB1,413,000 was incurred in this Quarter.

The Group's other operating expenses for the Quarter amounted to approximately RMB3,819,000, increasing by approximately RMB2,754,000 compared with that of the corresponding period last year. After becoming a subsidiary of the Company in December 2010, Neptunus Fuyao recorded R&D costs and amortization of intangible assets of approximately RMB 2,349,000 and RMB 1,420,000 for the Quarter respectively.

The Group's finance costs for the Quarter was approximately RMB4,317,000, a significant increase of approximately RMB491,000 from approximately RMB3,826,000 in the corresponding period last year. The increase was primarily because that Neptunus Fuyao, which became a subsidiary of the Company in December 2010, recorded finance costs of approximately RMB 1,154,000 in the Quarter.

The Group's profit (loss) before taxation for the Quarter changed to profit of approximately RMB 4,743,000 from loss of approximately RMB 9,019,000 for the corresponding period last year. Such change was mainly because that the Company acquired 80% equity in Neptunus Fuyao, a company whose profit grows steadily.

As such, profit attributable to the owners of the Company amounted to approximately RMB2,252,000 for the Quarter, compared with loss of approximately RMB9,019,000 for the corresponding period last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group usually finances its operating and investing activities with its internal financial resources 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.

Banking facilities

On 23 May 2006, the Company entered into a long-term loan agreement (the "CDB Loan Agreement") with 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 but not limited to the pledge of the domestic shares of the Company then 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 approximately RMB1,362,000 to CDB in accordance with the repayment schedule stipulated in the CDB Loan Agreement.

As at 31 March 2011, the Group's short-term bank borrowings were RMB 82,000,000, all of which were short-term bank borrowings of Neptunus Fuyao.

On 20 July 2010, Neptunus Fuyao was granted a short-term loan of RMB 5,000,000 from the Fuzhou Branch of Pingan Bank. This loan is bearing an annual interest rate of 5.31% and will be repaid on 19 July 2011.

On 3 August 2010, Neptunus Fuyao was granted a short-term loan of RMB28,000,000 from the Gushan (Fuzhou) Sub-branch of Agricultural Bank of China ("Gushan Sub-branch of ABC") by pledging its buildings and land use rights. This loan is bearing an annual interest rate of 4.779% and will be repaid on 27 July 2011.

On 10 August 2010, Neptunus Fuyao was granted a short-term loan of RMB 29,000,000 from Gushan Sub-branch of ABC, by pledging its buildings and land use rights. This loan is bearing an annual interest rate of 4.779% and will be repaid on 9 August 2011.

On 30 September 2010, Neptunus Fuyao was granted a short-term loan of RMB 20,000,000 from Gushan Sub-branch of ABC. This loan is bearing an annual interest rate of 4.779% and will be repaid on 29 September 2011.

Shareholder's interest-bearing financial assistance

As at 31 March 2011, the financial assistance obtained by the Company from Neptunus Bio-engineering amounted to approximately RMB91,155,000. The Company had not pledged its assets as security for such financial assistance. The financial assistance from Neptunus Bio-engineering were interest-bearing at one-year loan interest rate stipulated by the People's Bank of China for the corresponding period.

Shareholder's entrusted loans

Shareholder's entrusted loans obtained by the Company from Neptunus Bio-engineering as at 31 March 2011 amounted to RMB48,000,000.

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 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.

CDB LOAN AGREEMENT

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 then held by it (representing approximately 67.5% of the Company's then issued share capital and approximately 38.08% of the Company's issued share capital at the date of this report) 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 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.

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 then held by him (representing approximately 5.04% of the Company's then issued share capital and approximately 2.84% of the Company's issued capital at the date of this report) 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 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 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 GSKNeptunus (together, the "Shareholder's Income") and funds raised from any issue of additional H shares in the Company in the future to the Account. If after completion of the issues of additional H shares, the principal amount and accrued interests under the CDB Loan Agreement (together, the "Outstanding Loan") have not been fully repaid, all the funds raised by the Company from the issue of additional H shares 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 interests 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 far as the Directors or supervisors of the Company are aware, as at 31 March 2011, the interests and short positions 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 (the "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 or had otherwise notified to the Company 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 1)	Beneficial owner	Personal	47,671,000	3.80%	2.84%
Mr. Yu Jun (Note 2)	Beneficial owner	Personal	1,014,000	0.08%	0.06%

Notes:

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

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 70.38% of the entire issued share capital of the Company as at 31 March 2011.
- (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 27.66% of the entire issued share capital of Neptunus Bio-engineering, which was in turn beneficially interested in approximately 70.38% of the entire issued share capital of the Company as at 31 March 2011.
- (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 70.38% of the entire issued share capital of the Company as at 31 March 2011.

Save as disclosed above, as at 31 March 2011, 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 2011, the Company and its subsidiaries and its jointly controlled entity 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 subsidiaries, its jointly controlled entity or associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND ASSOCIATED SHARES

So far as the Directors and supervisors of the Company are aware, as at 31 March 2011, 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 or had otherwise notified to the Company 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	1,181,000,000	94.33%	70.38%
Neptunus Group (Note (a))	Interest in controlled corporation	1,181,000,000	94.33%	70.38%
Ankeen Enterprises (Note (b))	Interest in controlled corporation	1,181,000,000	94.33%	70.38%
Ms. Wang Jin Song (Note (c))	Interest in controlled corporation	1,181,000,000	94.33%	70.38%

Notes:

- (a) Neptunus Group was deemed to be interested in 1,181,000,000 domestic shares of the Company held by Neptunus Bio-engineering as Neptunus Group was beneficially interested in approximately 27.66% of the entire issued share capital of Neptunus Bio-engineering.
- (b) Ankeen Enterprises was deemed to be interested in 1,181,000,000 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 27.66% of the entire issued share capital of Neptunus Bio-engineering.
- (c) Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in 1,181,000,000 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 27.66% of the entire issued share capital of Neptunus Bio-engineering.

Save as disclosed above, the Directors and supervisors of the Company are not aware of any other persons (except the Directors, supervisors or chief executives of the Company) who held any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 March 2011.

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

The Company and its subsidiaries and its jointly controlled entity did not purchase, sell or redeem any of the Company's listed securities during the Quarter. The Company and its subsidiaries and its jointly controlled entity also did not redeem, purchase or cancel any of their redeemable securities.

COMPETING INTERESTS

On 21 August 2005, Neptunus Bio-engineering, the controlling shareholder of the Company, entered into an agreement with the Company, in relation to non-competition undertakings and priority investment rights (the "Non-Competition Undertakings"), pursuant to which Neptunus Bio-engineering had undertaken to the Company and its associates that, inter alia, as long as the securities of the Company are listed on GEM:

1. it will not, and will procure its associates not to whether within or outside the PRC, directly or indirectly or by any means, participate in or operate any business which may constitute direct or indirect competition with the business operated by the Company from time to time, or produce any products, the usage of which is the same as or similar to that of the products of the Company (other than those indirectly held as a result of the equity interest in any listed company or its subsidiaries); and
2. it will not, and will procure its associates not to hold any interest, whether within or outside the PRC, in any company or organization (directly or indirectly, other than indirectly held as a result of its equity interest in any listed company or its subsidiaries) when the business of such company or organisation will (or may) compete directly or indirectly with the business of the Company.

Pursuant to the Non-Competition Undertakings, during the term of such Undertakings, 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 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 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 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 of the Company, 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 2011

As at the date of this report, the executive Directors 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.