



NEPTUNUS

海王

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)

(於中華人民共和國註冊成立之股份有限公司)

Stock Code : 8329

2014
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.

QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of Shenzhen Neptunus Interlong Bio-technique Company Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2014 (the "Quarter"), together with the unaudited comparative figures for the corresponding period of 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the three months ended 31 March 2014

	Note	For the three months ended 31 March (Unaudited)	
		2014 RMB'000	2013 RMB'000
TURNOVER	4	149,067	157,925
Cost of sales		(83,200)	(88,688)
Gross profit		65,867	69,237
Other revenue	4	1,485	732
Other net income	4	3	–
Selling and distribution expenses		(18,331)	(25,753)
Administrative expenses		(15,533)	(13,237)
Other operating expenses		(10,113)	(6,995)
PROFIT FROM OPERATIONS		23,378	23,984
Finance costs	6	(2,048)	(1,635)
PROFIT BEFORE TAXATION	5	21,330	22,349
Income tax	7	(4,772)	(5,874)
PROFIT FOR THE PERIOD		16,558	16,475
Attributable to:			
Owners of the Company		12,986	12,049
Non-controlling interests		3,572	4,426
Earnings per share			
Basic and diluted	9	RMB0.77 cents	RMB0.72 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 31 March 2014

	For the three months ended 31 March (Unaudited)	
	2014 RMB'000	2013 RMB'000
Profit for the period	16,558	16,475
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	–	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	16,558	16,475
Attributable to:		
Owners of the Company	12,986	12,049
Non-controlling interests	3,572	4,426
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	16,558	16,475

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2014

	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve fund	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	167,800	554,844	(194,339)	17,909	(105,243)	440,971	77,383	518,354
Comprehensive income								
Profit for the period	–	–	–	–	12,049	12,049	4,426	16,475
Total comprehensive income for the period, net of tax	–	–	–	–	12,049	12,049	4,426	16,475
Deemed distribution arising on the acquisition of a subsidiary	–	–	(148)	–	–	(148)	–	(148)
At 31 March 2013	167,800	554,844	(194,487)	17,909	(93,194)	452,872	81,809	534,681
At 1 January 2014	167,800	554,844	(194,487)	22,716	(74,195)	476,678	83,926	560,604
Comprehensive income								
Profit for the period	–	–	–	–	12,986	12,986	3,572	16,558
Total comprehensive income for the period, net of tax	–	–	–	–	12,986	12,986	3,572	16,558
At 31 March 2014	167,800	554,844	(194,487)	22,716	(61,209)	489,664	87,498	577,162

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 2014 have been prepared in accordance with the applicable disclosure provision of the GEM Listing Rules, 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 2013, except for the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs"). The unaudited 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 2013.

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 financial statements for the period ended 31 March 2014 comprise the Company and its subsidiaries. The measurement basis used in the preparation of these financial statements is the historical cost basis. These financial statements are presented in Renminbi ("RMB"), and it is also the functional currency of the Company. All amounts are rounded to the nearest thousand except where otherwise indicated.

The condensed consolidated statements of quarterly results have not been audited.

3. SEGMENT REPORTING

The Group manages its business by divisions, which are organized 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 executive directors for the purpose of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- (i) Manufacturing and selling of medicines
- (ii) Sales and distribution of medicines and healthcare products
- (iii) Provision of R&D services of modern biological technology

Currently all the Group's activities above are carried out in the PRC. No reportable operating segment has been aggregated.

The first segment derives its revenue from the manufacture and sales of medicines.

The second segment derives its revenue from sales and distribution of medicines and healthcare products.

The third segment derives its revenue from the provision of R&D services. During the Quarter, the Group suspended the provision of R&D services to external parties.

The other segment derives commission income from the distribution of food products and healthcare food products.

(a) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include segmental business payables attributable to the activities of the individual segments 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.

The measure used for reporting segments profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, the executive directors are 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, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Intersegment 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 executive directors for the purposes of resource allocation and assessment performance for the period ended 31 March 2014 and 2013 is set out below:

For the three months ended 31 March	Manufacturing and selling of medicines		Sales and distribution of medicines and healthcare products		R&D services		Others		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Revenue from external customers	124,108	138,207	24,959	19,620	-	-	-	98	149,067	157,925
Inter-segment revenue	1,814	3,645	202	-	-	-	-	-	2,016	3,645
Reportable segment revenue	125,922	141,852	25,161	19,620	-	-	-	98	151,083	161,570
Reportable segment profit/ (loss) (adjusted EBITDA)	21,882	22,655	6,536	6,463	(401)	-	-	-	28,017	29,118
Interest income from bank deposits	489	518	5	4	2	-	-	-	496	522
Interest expenses	2,048	1,635	-	-	-	-	-	-	2,048	1,635
Depreciation and amortisation										
– Property, plant and equipment	4,348	3,964	55	1	-	-	-	-	4,403	3,965
– Prepaid lease payment	393	226	-	-	-	-	-	-	393	226
– Intangible assets	989	1,212	50	48	-	-	-	-	1,039	1,260

	Manufacturing and selling of medicines		Sales and distribution of medicines and healthcare products		R&D services		Others		Total	
	31 March 2014	31 December 2013	31 March 2014	31 December 2013	31 March 2014	31 December 2013	31 March 2014	31 December 2013	31 March 2014	31 December 2013
	(Unaudited) RMB'000	(Audited) RMB'000	(Unaudited) RMB'000	(Audited) RMB'000	(Unaudited) RMB'000	(Audited) RMB'000	(Unaudited) RMB'000	(Audited) RMB'000	(Unaudited) RMB'000	(Audited) RMB'000
Reportable segment assets	897,152	859,692	60,039	56,485	3,130	-	-	-	960,321	916,177
Additions to non-current assets (other than financial instrument and deferred tax assets)	9,085	60,365	12	2,035	762	-	-	-	9,859	62,400
Reportable segment liabilities	321,949	297,521	28,438	31,210	528	-	-	-	350,915	328,731

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

	For the three months ended 31 March (Unaudited)	
	2014 RMB'000	2013 RMB'000
Revenue		
Reportable segment revenue	151,083	161,570
Elimination of inter-segment revenue	(2,016)	(3,645)
Consolidated turnover	<u>149,067</u>	<u>157,925</u>
Profit		
Reportable segment profit	28,017	29,118
Elimination of inter-segment profit	–	–
Reportable segment profit derived from the Group's external customers	28,017	29,118
Other revenue and other net income	1,488	732
Depreciation and amortisation	(5,835)	(5,451)
Finance costs	(2,048)	(1,635)
Unallocated head office and corporate expense	(292)	(415)
Consolidated profit before taxation	<u>21,330</u>	<u>22,349</u>
	As at 31 March 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Assets		
Reportable segment assets	960,321	916,177
Elimination of inter-segment receivables	(4,228)	(3,887)
	<u>956,093</u>	<u>912,290</u>
Unallocated head office and corporate assets	300	300
Deferred tax assets	1,590	1,491
Tax recoverable	28	28
Consolidated total assets	<u>958,011</u>	<u>914,109</u>
Liabilities		
Reportable segment liabilities	350,915	328,731
Elimination of inter-segment payables	(4,228)	(3,887)
	<u>346,687</u>	<u>324,844</u>
Tax payable	13,248	7,446
Deferred tax liabilities	20,914	21,215
Consolidated total liabilities	<u>380,849</u>	<u>353,505</u>

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 (Unaudited)	
	2014 RMB'000	2013 RMB'000
Turnover		
Sales of medicines	124,108	138,207
Sales and distribution of medicines and healthcare products	24,959	19,620
Commission income	–	98
	149,067	157,925
Other revenue		
Interest income on bank deposits	496	522
Subsidy income released from deferred revenue	987	187
Others	2	23
	1,485	732
Other net income		
Recovery of impairment on trade receivables	3	–
	3	–

5. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	For the three months ended 31 March (Unaudited)	
	2014 RMB'000	2013 RMB'000
Salaries, wages and other benefits (including directors' emoluments)	16,430	13,493
Contributions to defined contribution retirement plan	4,041	3,476
Cost of inventories	81,433	86,551
Amortisation of interest in leasehold land held for own use	393	226
Depreciation	4,403	3,965
Amortisation of intangible assets*	1,039	1,260
R&D costs*	8,557	5,667

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

6. Finance costs

	For the three months ended 31 March (Unaudited)	
	2014 RMB'000	2013 RMB'000
Interest on bank loans wholly repayable within five years	1,227	1,290
Interest on financial assistance from the immediate parent company	821	345
Total interest expense on financial liabilities not at fair value through profit or loss	<u>2,048</u>	<u>1,635</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.

During the Quarter, two subsidiaries of the Group are recognized as high technology enterprises, and such subsidiaries are subject to the PRC enterprise income tax (the "EIT") at a rate of 15%. The Company and other subsidiaries for the Quarter are subject to the PRC EIT at a rate of 25%. PRC EIT of RMB4,772,000 in the condensed consolidated statement of profit or loss includes the provision for PRC EIT and the origination and reversal of temporary differences for the Quarter.

8. Dividends

The Board does not recommend the payment of any dividend for the Quarter (2013: Nil).

9. Earnings per share

During the Quarter, the calculation of basic earnings per share was based on the unaudited profit attributable to owners of the Company of approximately RMB12,986,000 (2013: profit of RMB12,049,000) and 1,678,000,000 ordinary shares in issue for the Quarter (2013: 1,678,000,000 shares).

Diluted earnings per share for the three-month ended 31 March 2014 and 2013 equals to basic earnings 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 antitumor drugs, the research and development (“R&D”) of modern biological pharmaceuticals and the purchase and sales of medicines, healthcare foods and foods business (“Purchase and Sales of Medicines and Healthcare Foods Business”), with R&D and industrialization of in-vitro diagnostic reagent (the “IVD Reagent”) products newly added. Among which, businesses such as herbal medicine, generic drugs, transfusion and anti-tumor drugs were operated through Fuzhou Neptunus Fuyao Pharmaceutical Company Limited (“Neptunus Fuyao”) and its subsidiaries while the R&D of bio-pharmaceutical technology and industrialization of IVD Reagent products were operated by our subsidiary, Jiangsu Neptunus Bio-pharmaceutical Company Limited (“Jiangsu Neptunus”). The R&D Business of IVD Reagent was operated by our subsidiary, Taizhou Neptunus Nano Bio-medical Technology Company Limited (“Neptunus Nano”). Purchase and Sales of Medicines and Healthcare Foods Business was mainly operated by our subsidiary, Shenzhen Neptunus Changjian Pharmaceutical Company Limited (“Neptunus Changjian”). Meanwhile, the Company dedicated itself to the R&D of biological technology in pharmaceuticals and agriculture, and expanded the scale of R&D in the field of chemosynthetic anti-tumor drugs and the application of bio-technology in the field of bioagriculture.

NEPTUNUS FUYAO BUSINESS

Neptunus Fuyao and its subsidiaries together own more than 40 production lines for 17 types of medications in dose form, as well as 450 approvals in relation to the production of drugs. The number of types of generic drugs in the National Essential Drugs List issued by the Ministry of Health (the “List”) in March 2013 was increased from 307 to 520. Besides significantly increasing the number of types of generic drugs, the List also required prioritized use of generic drugs in grade II hospitals. Neptunus Fuyao currently owns 210 types or forms of drugs which are included in the List. The issue of the List was favourable for Neptunus Fuyao’s operation in the Quarter.

Neptunus Fuyao and its subsidiaries recorded an income from principal business of approximately RMB125,922,000. Due to the fact that Neptunus Fuyao’s subsidiary Fuzhou Neptunus Jinxiang Chinese Pharmaceutical Company Limited (“Neptunus Jinxiang”) conducted new GMP certification at the end of 2013 and the production and sales of small-dose injections of Neptunus Fuyao were in the phase of recovery, the income from principal business of Neptunus Fuyao and its subsidiaries decreased by 11% compared with that of corresponding period last year. During this Quarter, GMP Enhancement and new GMP certification proceeded smoothly. Among Neptunus Fuyao’s production lines, those required to meet the new GMP requirement have reached the standard before the required deadline of 2013 and obtained relevant GMP certificates. All 15 formulations in production of Neptunus Jinxiang have passed the GMP certification in this Quarter and obtained the new GMP certificates. Neptunus Fuyao is commencing GMP Enhancement for the production lines of chemical medicine tablets, capsules and powder, special production line of amoxicillin capsules and production line of active pharmaceutical ingredients, and will submit the application of certification to the relevant competent departments. It is expected that Neptunus Fuyao and its subsidiaries will complete the GMP Enhancement and new GMP certification for all production lines in the third quarter of 2014. Fuzhou Fuyao Medical Company Limited conducted new GSP certification in the first quarter of 2014, it is expected that the new GSP certification will complete in June this year. The management expects that the GMP Enhancement will not significantly affect the annual results of Neptunus Fuyao and its subsidiaries.

In order to ensure the sustainable development, Neptunus Fuyao also emphasized on the R&D of new drugs. Approval for the registration application filed to the China Food and Drug Administration (“CFDA”) for the drug “Tegafur, Gimeracil and Oteracil Potassium Tablets” was granted in this Quarter by the CFDA. Neptunus Fuyao obtained the production approval of Tegafur, Gimeracil and Oteracil Potassium Tablets on 7 March 2014. “Tegafur, Gimeracil and Oteracil Potassium” is a combination drug mainly for the treatment of advanced gastric cancer. According to market statistics, the PRC market sales for such kind of drug sustained a rapid growth in 2011 and 2012. Besides Neptunus Fuyao, currently four other pharmaceutical companies (1 Japanese pharmaceutical company and 3 Chinese pharmaceutical companies) have the production approval for such kind of drug in China and all are in capsule form while Neptunus Fuyao’s Tegafur, Gimeracil and Oteracil Potassium Tablets is in exclusive dosage form, which belongs to Class

3.2 new drugs of chemical drugs. Neptunus Fuyao is actively preparing for the production conditions and active pharmaceutical ingredients procurement. Upon fulfilling the relevant requirements of production preparation and procurement of active pharmaceutical ingredients, Tegafur, Gimeracil and Oteracil Potassium Tablets are expected to be launched to the market within the year, which will provide positive support to the profitability of Neptunus Fuyao.

Regarding the relevant construction work of the Lianjiang Production Base, the new production base of Neptunus Fuyao, as the progress of demolition by the local government is slower than expected, the Land Use Rights Transfer Contracts have not been signed at present. The Company and Neptunus Fuyao are communicating with the local government department proactively in order to facilitate the local government department for completion of demolition and relocation of such piece of land and so that the signing of Land Use Rights Transfer contracts could be completed as soon as possible.

RECOMBINANT PROTEINS AND POLYPEPTIDE DRUGS BUSINESS

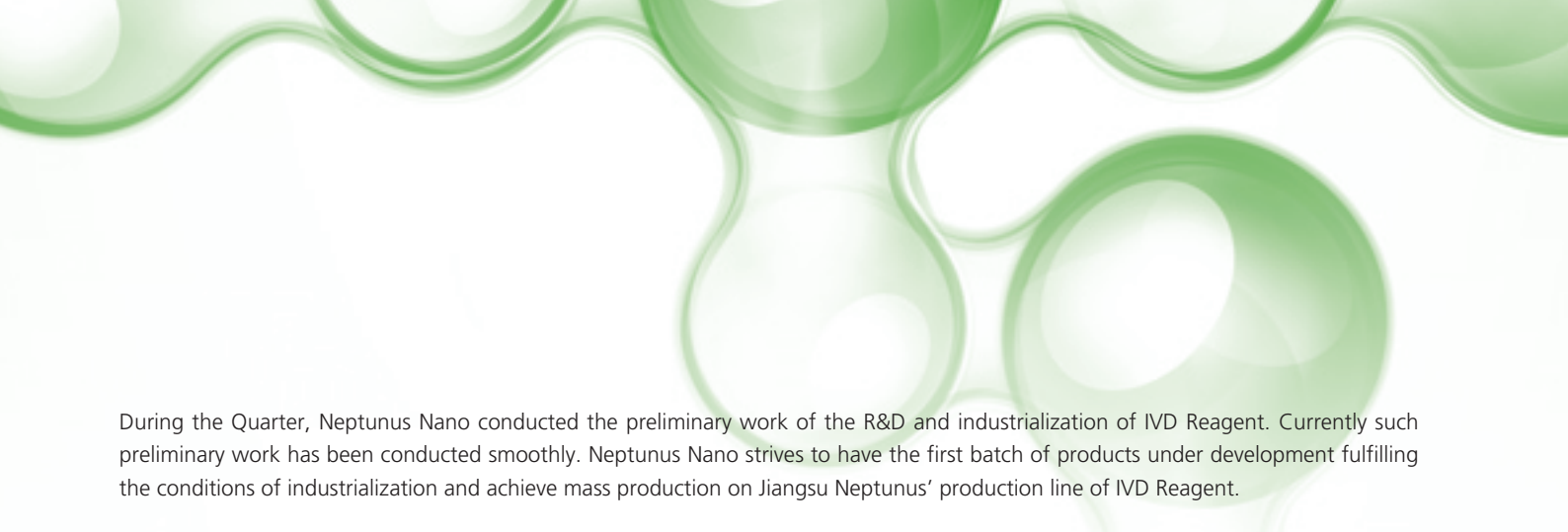
At present, the focus of Jiangsu Neptunus, a wholly-owned subsidiary of the Company, is the construction of production line of IVD Reagent, clinical trial on recombinant human thymosin α 1 for injection and testing for technology transfer of recombinant human interleukin-2(125Ser) for injection. Jiangsu Neptunus's clinical trial on recombinant human thymosin α 1 for injection is undergoing according to the plan. Phase II clinical trial has begun in the first quarter of 2013. At present, phase II clinical trial smoothly completed 196 trials, representing 89% of trials of the scheme. According to the current trial, the use of recombinant human thymosin α 1 demonstrated satisfactory results in terms of safety, whereas its effectiveness will be subject to further trials and observation.

According to the relevant laws and rules, Jiangsu Neptunus is conducting the process confirmation and verification work for the technology transfer of recombinant human interleukin-2(125Ser) for injection. It has proceeded smoothly and the trial production of certain batches of lyophilized preparation of recombinant human interleukin-2(125Ser) for injection has been completed.

IVD REAGENT BUSINESS

On 8 January 2014, Jiangsu Neptunus and an independent third party (the "Partner") entered into a cooperation agreement (the "Cooperation Agreement") to establish the Neptunus Nano. Currently, Neptunus Nano mainly utilizes the established preparation technique of fluorescent quantum dots labeled biological probes using metal cadmium sulfide and selenide as core, which is developed by the Partner, to carry out the R&D of IVD Reagent and achieve industrialization. Meanwhile, Neptunus Nano also strives to commence the preparation and sales of fluorescent quantum dots IVD Reagent and biological research reagent.

Material terms of the Cooperation Agreement: (1) Jiangsu Neptunus will first establish a wholly-owned company by a cash contribution of RMB3,000,000 to carry out the preparation work of the industrialization of IVD Reagent based on fluorescent quantum dots labeled biological probes using metal cadmium sulfide and selenide as core; (2) upon the IVD Reagent developed by the wholly-owned company meeting the conditions of industrialization, the wholly-owned company will be transformed into the Joint Venture Company (the "JV Company") by increasing its registered capital to RMB10,000,000, of which Jiangsu Neptunus will make additional cash contribution of RMB2,100,000 and its accumulated contribution will represent 51% equity interest in the JV Company, while the Partner will hold 49% equity interest by a capital contribution of RMB4,900,000 in the form of patents or proprietary technology in respect of the abovementioned IVD Reagent which met the conditions of industrialization; (3) under the same conditions, Jiangsu Neptunus and its related parties will have pre-emptive right in the industrialization of the IVD Reagent; Jiangsu Neptunus will pay corresponding product license fees and technical fees to the JV Company after acquiring such rights; and (4) when the accumulated net profit (including dividends paid) of the JV Company exceeds RMB10,000,000, the Partner has the right to sell not more than 15% equity interest in the JV Company to Jiangsu Neptunus and Jiangsu Neptunus is obliged to acquire such equity interest. The consideration of the equity transfer will equal to 15% of the value of the JV Company which will be calculated as eight times its average net profit of the two years prior to the transfer; by then the Company will perform the compliance requirements and the corresponding approval processes in accordance with the GEM Listing Rules.



During the Quarter, Neptunus Nano conducted the preliminary work of the R&D and industrialization of IVD Reagent. Currently such preliminary work has been conducted smoothly. Neptunus Nano strives to have the first batch of products under development fulfilling the conditions of industrialization and achieve mass production on Jiangsu Neptunus' production line of IVD Reagent.

In line with the Group's development in IVD Reagent, establishment work for relevant production line of IVD Reagent of Jiangsu Neptunus has been launched in January 2014. The construction work is proceeding according to the plan at present. At the end of the Quarter, the main construction of the production line of IVD Reagent has been completed. Finishing of construction and debugging will continue in subsequent phases.

PURCHASE AND SALES OF MEDICINES AND HEALTHCARE FOODS BUSINESS

Neptunus Fuyao and the Company have a small amount of operation in the Purchase and Sales of Medicines and Healthcare Foods Business in 2012 and the previous years. In order to expand the development by the Group in such business, the Company acquired Neptunus Changjian in January 2013, and the business development of Neptunus Changjian was confirmed as purchase and sales of medicines, healthcare food products and food products.

Neptunus Changjian's Purchase and Sales of Medicines and Healthcare Foods Business maintained its growth during the Quarter and recorded an income from principal business totaling approximately RMB 25,161,000, which provides positive support to profitability of the Group. During the Quarter, Neptunus Changjian optimized sales team structure, adjusted market allocation, refined sales management and streamlined workflow processes. It continued to make a breakthrough regarding the bottleneck in sales and adopted more effective sales model in response to market changes. Neptunus Changjian has entered into strategic cooperation agreement with more than 10 key chain pharmacies around the country to further promote comprehensive cooperation and some of the products were included in the nationwide centralized procurement catalogue of many key chain pharmacies.

Given the increase in population of China, aging of the average population, as well as on-going increase in the government input in medical protection, pharmaceutical and healthcare product market is expected to remain in the upward trend in 2014. Neptunus Changjian strived to ensure sustainable growth of future sales revenue.

R&D BUSINESS

Since January 2009, the Company has been focusing on the R&D business of modern biological technology. During the Quarter, the Company has focused on the R&D of its own products.

The Company entered into a technical cooperation agreement with the School of Life Sciences, Jilin University on 1 March 2012 to cooperate in R&D of polypeptide and chemicals primarily by microsphere technology and to explore and establish a more advanced platform for long term drug delivery technology. The bench-scale testing has almost completed at present. Whether the interim testing for scale-up research will be launched is yet to be decided pending the assessment of results of animal testing.

The Company entered into an academic subsidy and entrusted R&D agreement with Harbin Institute of Technology ("Harbin Institute") on 2 May 2012 and 31 May 2013 respectively for cooperative R&D of the Project ET-743 (a chemosynthetic antitumor drug). The bench-scale synthetic testing was fully completed during 2013 and optimization of the synthetic process has taken place at the same time. Optimization and scale-up experiments are currently under progress.

With the State policy of supporting application of bio-technology to the field of agriculture, since 2012 the Company utilised its strengths and resources in biotechnology and cooperated with top-class research institutions in relevant fields in China, to explore the field of bio-agriculture. At present, it is developing biological products aiming to prevent common piglet intestine diarrhea and to protect intestine function of piglet. During the Quarter, the Company was granted the permit for the production of mixed bio-feed additives. The approval of production for relevant products is currently undergoing administrative examination.

FINANCIAL REVIEW

The Group's turnover for the Quarter was approximately RMB149,067,000, representing a decrease of approximately 5.61% from that of approximately RMB157,925,000 in the corresponding period last year. All turnover for the Quarter was mainly derived from sales income of pharmaceutical products of Neptunus Fuyao and sales income of drug and healthcare food of Neptunus Changjian. During the Quarter, the sales of products was affected because Neptunus Fuyao and its subsidiaries underwent GMP Enhancement and the production and sales of small-dose injections of Neptunus Fuyao were in the phase of recovery. Therefore, the turnover decreased slightly compared with that of the corresponding period last year. The sales revenue of Neptunus Changjian maintained its growth. As such, the overall turnover of the Group decreased slightly as compared with that of the corresponding period last year.

The Group's gross profit and gross profit margin for the Quarter were approximately RMB65,867,000 and 44% respectively. Gross profit decreased by approximately RMB3,370,000 and gross profit margin was of the same level compared with that of the corresponding period last year. As the turnover of Neptunus Fuyao dropped and the gross profit margin was of the same level, gross profit dropped compared with that of the corresponding period last year.

The Group's selling and distribution expenses for the Quarter amounted to approximately RMB18,331,000, representing a decrease of RMB7,422,000 from RMB25,753,000 of the same period last year. The decrease in selling and distribution expenses was mainly due to the significant decrease in the sales of Neptunus Fuyao's transfusion drugs.

The Group's administrative expenses for the Quarter amounted to approximately RMB15,533,000, representing an increase of approximately RMB2,296,000 and 17.35%, as compared with approximately RMB13,237,000 in the corresponding period last year. The increase in administrative expenses was mainly due to the operation expansion and increase in personnel of Neptunus Changjian, which caused an increase of RMB2,054,000 in administrative expenses.

The Group's other operating expenses for the Quarter amounted to approximately RMB10,113,000, representing an increase of approximately RMB3,118,000 from approximately RMB6,995,000 in the corresponding period last year. The increase in other operating expenses was mainly due to the significant increase in the R&D expenses of Neptunus Fuyao and Jiangsu Neptunus.

The Group's finance costs for the Quarter was approximately RMB2,048,000, representing an increase of approximately RMB413,000 from approximately RMB1,635,000 in the corresponding period last year, which was mainly due to (i) an increase in the total bank loans of Neptunus Fuyao for the Quarter, and (ii) compared with the first quarter in 2013, the shareholder's interest-bearing financial assistance obtained by Neptunus Fuyao from Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering") amounted to approximately RMB27,000,000.

The Group's profit after taxation for the Quarter increased slightly to approximately RMB16,558,000 from approximately RMB16,475,000 for the corresponding period last year. As such, profit attributable to the owners of the Company amounted to approximately RMB12,986,000 for the Quarter, compared with that of approximately RMB12,049,000 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.

As at 31 March 2014, total bank borrowings of the Group amounted to approximately RMB115,000,000, all of which were short-term bank borrowings.

Banking facilities

As at 31 March 2014, the Group's short-term bank borrowings amounted to RMB115,000,000.

On 8 February 2014, Neptunus Fuyao was granted a short-term loan of RMB86,000,000 from the Sanshan Subbranch (Fuzhou) of Fujian Haixia Bank, by pledging its land use rights and buildings. This loan will be repaid on 7 February 2015 and is bearing an annual interest rate of 6.00%.

On 28 February 2014, Neptunus Fuyao was granted a short-term loan of RMB14,000,000 from the Sanshan Subbranch (Fuzhou) of Fujian Haixia Bank, by pledging its land use rights and buildings. This loan will be repaid on 27 February 2015 and is bearing an annual interest rate of 6.00%.

On 27 March 2014, Jiangsu Neptunus was granted a small business liquidity loan of RMB 15,000,000 from Taizhou branch of Bank of Communications Co., Ltd. This loan will be repaid on 1 October 2014 and is bearing an annual interest rate of 7.2%. The guarantee for this loan was provided by independent third party guarantee company and the Company provided counter-guarantee to the independent third party guarantee company. It is expected that this loan will be extended for eight months after it is matured.

Shareholder's interest-bearing financial assistance

As at 31 March 2014, the shareholder's interest-bearing financial assistance obtained by the Company from Neptunus Bio-engineering amounted to RMB23,000,000. Such shareholder's interest-bearing financial assistance is unsecured and bearing an annual interest rate of 6.60%. The Company has provided such fund to Neptunus Fuyao by way of shareholder's interest-bearing financial assistance for the construction plan of Lianjiang Production Base.

As at 31 March 2014, the shareholder's interest-bearing financial assistance obtained by Neptunus Fuyao from Neptunus Bio-engineering amounted to RMB27,000,000. Such shareholder's interest-bearing financial assistance is unsecured and bearing an annual interest rate of 6.60%, and was used in the upgrade and enhancement work of Neptunus Fuyao's certain production lines.

Shareholder's entrusted loans

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 rate 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"); (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.

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 2014, 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	30,561,000	2.44%	1.82%
Mr. Yu Jun (Note 2)	Beneficial owner	Personal	1,014,000	0.08%	0.06%
Mr. Song Ting Jiu (Note 3)	Beneficial owner	Personal	1,521,500	0.12%	0.09%

Notes:

- 1 Executive director and general manager of the Company
- 2 Supervisor and employee of the Company
- 3 Non-executive director 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 held in associated corporation	Approximate percentage of the associated corporation's issued share capital
Mr. Zhang Feng (Note (a))	Beneficial owner	Personal	Neptunus Bio-engineering	532,437	0.07%
Mr. Liu Zhan Jun (Note (b))	Beneficial owner	Personal	Neptunus Bio-engineering	266,217	0.04%
Ms. Yu Lin (Note (c))	Beneficial owner	Personal	Neptunus Bio-engineering	79,864	0.01%

Notes:

- (a) Mr. Zhang Feng, deputy chairman of the board of directors of Neptunus Bio-engineering, was beneficially interested in approximately 0.07% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 71.67% of the entire issued share capital of the Company, of which 70.38% was directly held and 1.29% was indirectly held through Shenzhen Neptunus Oriental Investment Company Limited ("Neptunus Oriental").
- (b) Mr. Liu Zhan Jun, director and president of Neptunus Bio-engineering, was beneficially interested in approximately 0.04% of the entire issued capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 71.67% of the entire issued share capital of the Company, of which 70.38% was directly held and 1.29% was indirectly held through Neptunus Oriental.
- (c) Ms. Yu Lin, director and vice-president of Neptunus Bio-engineering, was beneficially interested in approximately 0.01% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 71.67% of the entire issued share capital of the Company, of which 70.38% was directly held and 1.29% was indirectly held through Neptunus Oriental.

Save as disclosed above, as at 31 March 2014, 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 2014, the Company and its subsidiaries 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 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 2014, 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 (<i>Note (a)</i>)	Beneficial owner	1,181,000,000	94.33%	70.38%
	Interest in controlled corporation	21,650,000	1.73%	1.29%
Shenzhen Neptunus Group Company Limited ("Neptunus Group") (<i>Note (b)</i>)	Interest in controlled corporation	1,202,650,000	96.06%	71.67%
Shenzhen Yinhetong Investment Company Limited ("Yinhetong") (<i>Note (c)</i>)	Interest in controlled corporation	1,202,650,000	96.06%	71.67%
Mr. Zhang Si Min (<i>Note (d)</i>)	Interest in controlled corporation	1,202,650,000	96.06%	71.67%
Ms. Wang Jin Song (<i>Note (e)</i>)	Interest of spouse	1,202,650,000	96.06%	71.67%
Bank of Hangzhou Co., Ltd., Shenzhen Branch ("Bank of Hangzhou") (<i>Note (f)</i>)	Security interest in shares	1,181,000,000	94.33%	70.38%

Notes:

- (a) Neptunus Bio-engineering was deemed to be interested in the 21,650,000 domestic shares of the Company held by Neptunus Oriental as the entire issued share capital of Neptunus Oriental was beneficially owned by Neptunus Bio-engineering. Neptunus Bio-engineering was also directly interested in 1,181,000,000 domestic shares of the Company. Therefore, Neptunus Bio-engineering was directly and indirectly interested in 1,202,650,000 domestic shares of the Company.
- (b) Neptunus Group was deemed to be interested in the 1,202,650,000 domestic shares of the Company, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Neptunus Group was beneficially interested in approximately 24.66% of the entire issued share capital of Neptunus Bio-engineering.
- (c) Yinhetong was deemed to be interested in 1,202,650,000 domestic shares of the Company, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Yinhetong was beneficially interested in approximately 58.96% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 24.66% of the entire issued share capital of Neptunus Bio-engineering.
- (d) Mr. Zhang Si Min ("Mr. Zhang") was deemed to be interested in 1,202,650,000 domestic shares of the Company, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Mr. Zhang was beneficially interested in 70% of the entire issued share capital of Yinhetong, which in turn was beneficially interested in approximately 58.96% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 24.66% of the entire issued share capital of Neptunus Bio-engineering.
- (e) Ms. Wang Jin Song ("Ms. Wang") was deemed to be interested in 1,202,650,000 domestic shares of the Company, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Ms. Wang is the spouse of Mr. Zhang and was taken to be beneficially interested in any shares held by Mr. Zhang.
- (f) Bank of Hangzhou was deemed to be interested in 1,181,000,000 domestic shares of the Company held by Neptunus Bio-engineering which has pledged its domestic shares to Bank of Hangzhou.

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 2014.

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

The Company and its subsidiaries did not purchase, redeem or sell any of the Company's listed securities during the Quarter. The Company and its subsidiaries 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 condensed results of the Group for the Quarter.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As the Directors are aware, during the Quarter, the Company has complied with the requirements under the “Corporate Governance Code and Corporate Governance Report” set out in Appendix 15 of 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 Feng
Chairman

Shenzhen, the PRC, 8 May 2014

As at the date of this report, the executive Directors are Mr. Zhang Feng, Mr. Chai Xiang Dong and Mr. Xu Yan He; the non-executive Directors are Ms. Yu Lin, Mr. Liu Zhan Jun and Mr. Song Ting Jiu; and the independent non-executive Directors are Mr. Yick Wing Fat, Simon, Mr. Poon Ka Yeung and Mr. Yu Bo.