



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
THIRD 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 the Company is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the nine months ended 30 September 2014 (the "Relevant Period"), together with the unaudited comparative figures for the corresponding period of 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

for the three months and nine months ended 30 September 2014

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Turnover	3	162,077	159,028	478,346	456,889
Cost of sales		(100,079)	(98,215)	(277,160)	(271,429)
Gross profit		61,998	60,813	201,186	185,460
Other revenue	3	9,021	925	13,443	2,376
Other net income	3	–	–	64	145
Selling and distribution expenses		(25,650)	(28,336)	(74,506)	(69,696)
Administrative expenses		(13,535)	(13,662)	(40,042)	(40,931)
Other operating expenses		(14,727)	(8,035)	(36,715)	(25,682)
Profit from operations		17,107	11,705	63,430	51,672
Finance costs	5	(2,875)	(2,094)	(8,143)	(5,635)
Profit before taxation	4	14,232	9,611	55,287	46,037
Income tax	6	(3,545)	(2,323)	(13,353)	3,314
Profit for the period		10,687	7,288	41,934	49,351
Attributable to:					
Owners of the Company		7,924	4,745	32,063	38,089
Non-controlling interests		2,763	2,543	9,871	11,262
Profit for the period		10,687	7,288	41,934	49,351
Earnings per share					
Basic and diluted	8	RMB0.47 cents	RMB0.28 cents	RMB1.91 cents	RMB2.27 cents

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

for the three months and nine months ended 30 September 2014

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Profit for the period	10,687	7,288	41,934	49,351
Other comprehensive income for the period				
Other comprehensive income for the period, net of tax	–	–	–	–
Total other comprehensive income for the period, net of tax	–	–	–	–
Total comprehensive income for the period	10,687	7,288	41,934	49,351
Total comprehensive income attributable to:				
Owners of the Company	7,924	4,745	32,063	38,089
Non-controlling interests	2,763	2,543	9,871	11,262
Total comprehensive income for the period	10,687	7,288	41,934	49,351

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the nine months ended 30 September 2014

	Attributable to owners of the Company					Total	Non-controlling Interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve fund	Accumulated loss			
	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
Change in equity for 2013								
Profit for the period	-	-	-	-	38,089	38,089	11,262	49,351
Other comprehensive income for the period, net of tax	-	-	-	-	-	-	-	-
Total comprehensive income for the period, net of tax	-	-	-	-	38,089	38,089	11,262	49,351
Deemed distribution arising on the acquisition of a subsidiary	-	-	(148)	-	-	(148)	-	(148)
Dividend paid from subsidiary to non-controlling interests	-	-	-	-	-	-	(4,600)	(4,600)
Transfer to other reserves	-	-	-	33	(33)	-	-	-
At 30 September 2013	<u>167,800</u>	<u>554,844</u>	<u>(194,487)</u>	<u>17,942</u>	<u>(67,187)</u>	<u>478,912</u>	<u>84,045</u>	<u>562,957</u>
At 1 January 2014	167,800	554,844	(194,487)	22,716	(74,195)	476,678	83,926	560,604
Change in equity for 2014								
Profit for the period	-	-	-	-	32,063	32,063	9,871	41,934
Other comprehensive income for the period, net of tax	-	-	-	-	-	-	-	-
Total comprehensive income for the period, net of tax	-	-	-	-	32,063	32,063	9,871	41,934
Dividend paid from subsidiary to non-controlling interests	-	-	-	-	-	-	(5,000)	(5,000)
Transfer to other reserves	-	-	-	350	(350)	-	-	-
At 30 September 2014	<u>167,800</u>	<u>554,844</u>	<u>(194,487)</u>	<u>23,066</u>	<u>(42,482)</u>	<u>508,741</u>	<u>88,797</u>	<u>597,538</u>



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

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 nine months ended 30 September 2014 have been prepared in accordance with the applicable disclosure provisions 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 in conformity with HKAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and the 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. The condensed consolidated financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2013.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for 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 information for the period ended 30 September 2014 comprises 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"), which is also the functional currency of the Company and all amounts are rounded to the nearest thousand except where otherwise indicated.

The condensed consolidated financial statements of the quarterly results are unaudited (certain comparative figures in last year have been reclassified to conform with current year presentation).

3. 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, net invoiced value of research and development ("R&D") services provided net of sales tax and commission income. An analysis of turnover and other revenue is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Turnover				
Sale of medicines	134,644	128,469	392,805	381,337
Sales and distribution of medicines and healthcare products	27,419	30,464	85,475	74,431
Commission income	–	95	–	1,121
R&D services income	14	–	66	–
	162,077	159,028	478,346	456,889
Other revenue				
Interest income from bank deposits	1,352	489	2,877	1,466
Subsidy income released from deferred revenue	7,627	152	10,496	486
Investment gains	–	13	–	13
Other	42	271	70	411
	9,021	925	13,443	2,376
Other net income				
Reversal of impairment on trade receivables	–	–	12	–
Reversal of impairment on other receivables	–	–	5	104
Reversal of written down of inventories	–	–	47	41
	–	–	64	145

4. PROFIT BEFORE TAXATION

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
(a) Staff costs (including directors' emoluments)				
Salaries, wages and other benefits	18,007	15,050	53,130	43,449
Contributions to defined contribution retirement plan	3,486	3,731	10,916	9,877
	21,493	18,781	64,046	53,326
(b) Other items				
Cost of inventories	100,178	99,818	276,008	270,090
Amortisation				
– prepaid lease payments	393	393	1,178	1,178
– intangible assets *	1,039	1,080	3,121	3,159
Depreciation	4,582	3,467	14,226	11,879
R & D costs *	12,887	6,872	29,408	21,084
Impairment on trade receivables *	4	–	173	194
Impairment on other receivables *	–	–	113	23
Loss on disposal of property, plant and equipment *	110	4	380	275
Written down of inventory *	351	10	3,123	703
Auditor's remuneration				
– other services	279	145	539	395

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

5. FINANCE COSTS

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Interest on bank loans wholly repayable within five years	1,818	1,273	4,893	3,974
Interest on financial assistance from the immediate parent company	1,057	821	3,250	1,661
Total interest expense on financial liabilities not at fair value through profit or loss	2,875	2,094	8,143	5,635

6. INCOME TAX

Income tax in the condensed consolidated statement of profit or loss represents:

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Current tax				
Provision for PRC Enterprise Income Tax	3,821	2,625	14,126	11,511
Deferred tax				
Origination and reversal of temporary differences	(276)	(302)	(773)	(859)
Attributable to a change in tax rate	–	–	–	(13,966)
	3,545	2,323	13,353	(3,314)

Hong Kong Profits Tax has not been provided for as the Group, had no income assessable to Hong Kong Profits Tax during the Relevant Period (30 September 2013: Nil).

On 9 April 2013, a subsidiary of the Group established in the PRC was recognised by the Fujian Province Bureau of Science and Technology as a high technology enterprise. As at 30 September 2014, two subsidiaries of the Group established in the PRC are qualified as high technology enterprise. In accordance with the applicable enterprise income tax law of the PRC, these subsidiaries are subject to the PRC enterprise income tax at a preferential rate of 15%.

The other PRC subsidiaries are subject to the PRC enterprise income tax at a rate of 25% for the Relevant Period (30 September 2013: 25%).

7. DIVIDENDS

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

8. EARNINGS PER SHARE

Basis earnings per share

For the three-month and nine-month periods ended 30 September 2014, the calculation of basic earnings per share was based on the profit attributable to owners of the Company of approximately RMB7,924,000 and RMB32,063,000 respectively (three-month and nine-month periods ended 30 September 2013: profit of approximately RMB4,745,000 and RMB38,089,000 respectively) and the weighted average number of 1,678,000,000 ordinary shares in issue for the three-month and nine-month periods ended 30 September 2014 (2013: 1,678,000,000 ordinary shares).

Diluted earnings per share

Diluted earnings per share for the three-month and nine-month periods ended 30 September 2014 and 2013 equals to basis earnings per share because there were no potential dilutive ordinary shares outstanding during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Relevant Period, the Group was principally engaged in various medicine businesses such as herbal medicine, generic drugs, transfusion and antitumor drugs, the R&D of modern biological pharmaceuticals and the purchase and sales of medicines, healthcare food and food business (“Purchase and Sales of Medicines and Healthcare Food 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 Food Business was mainly operated by our subsidiary, Shenzhen Neptunus Changjian Pharmaceutical Company Limited (“Neptunus Changjian”). Meanwhile, the Company has dedicated its efforts in 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 over 470 approvals in relation to the production of drugs. In order to encourage the enthusiasm of pharmaceutical manufacture enterprises to produce low price drugs, according to the List (“Low Price List”) of Low Price Drugs Within the Pricing Range Fixed by the National Development and Reform Commission (the “NDRC”) issued by the NDRC in May 2014, the highest selling prices for 280 types of low cost Western drugs and 250 types of low cost Chinese traditional medicines were cancelled, and pharmaceutical manufacture enterprises can fix prices for the drugs in the Low Price List on their own within the prescribed scope. Neptunus Fuyao and its subsidiaries totally own more than 100 types of products in the Low Price List, which can obtain reasonable profit margin according to the national policies. Therefore, Neptunus Fuyao and its subsidiaries will strive to expand the sales of those types of products through the enhancement of promotion and the resumption of production in order to bring positive impact on their annual results.

During the Relevant Period, Neptunus Fuyao and its subsidiaries recorded a turnover of approximately RMB402,156,000. Because Neptunus Fuyao’s subsidiary, Fuzhou Neptunus Jinxiang Chinese Pharmaceutical Company Limited (“Neptunus Jinxiang”), started conducting new GMP certification since the end of 2013 and the production and sales of small-dose injections of Neptunus Fuyao were in the phase of recovery, the turnover of Neptunus Fuyao and its subsidiaries in the first quarter of this year decreased slightly compared with that of corresponding period last year. However, along with the elimination of such effects, turnover from Neptunus Fuyao and its subsidiaries increased steadily starting from the second quarter of this year. During the Relevant Period, Neptunus Fuyao commenced GMP Enhancement for the production lines of chemical medicine tablets, capsules and powder, the special production line of amoxicillin capsules and the production line of active pharmaceutical ingredients. Along with the completion of GMP Enhancement, Neptunus Fuyao has obtained respective new GMP certificates for each of the production lines in November 2014. Up to the date, the GMP Enhancement for all production lines of drugs in production of Neptunus Fuyao and its subsidiaries has been completed and the respective new GMP certificates have also been obtained. During the Relevant Period, Fuzhou Fuyao Medical Company Limited (“Fuyao Medical”) commenced new GSP certification and the new GSP certificate was obtained in July 2014. The GMP Enhancement and new GMP and GSP certification will not significantly affect the annual results of Neptunus Fuyao and its subsidiaries.

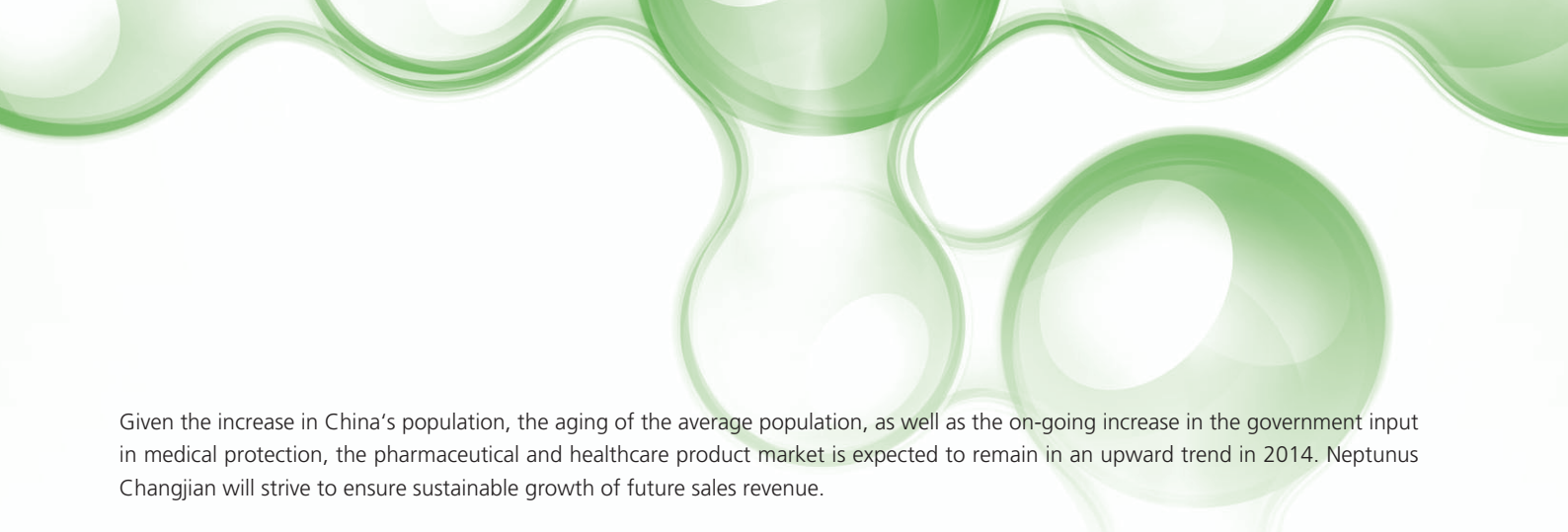
In order to ensure sustainable development, Neptunus Fuyao also emphasized on the R&D of new drugs. In the first quarter of this year, Neptunus Fuyao obtained the approval for the registration application for the drug named “Tegafur, Gimeracil and Oteracil Potassium Tablets”* (「替吉奧片」) from the China Food and Drug Administration* (國家食品藥品監督管理總局), and obtained the production approval of Tegafur, Gimeracil and Oteracil Potassium Tablets on 7 March 2014. “Tegafur, Gimeracil and Oteracil Potassium”* (「替吉奧」) 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 maintained 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 are in exclusive dosage form, which belongs to Class 3.2 new drugs of chemical drugs. During the Relevant Period, Neptunus Fuyao has completed production preparation and active pharmaceutical ingredients procurement. Production of the first batch of Tegafur, Gimeracil and Oteracil Potassium Tablets has been completed and its acceptance examination has also been passed. The tablets were launched into the market after the end of the Relevant Period. After launching Tegafur, Gimeracil and Oteracil Potassium Tablets, as effort has to be made in its marketing and promotion and in drug bidding, therefore, it is hard for Tegafur, Gimeracil and Oteracil Potassium Tablets to provide significant support to the profitability of Neptunus Fuyao this year.

Neptunus Fuyao is also committed to expanding its medical device business, and through the way of cooperative R&D, it has obtained the registration certificates of one class III medical device and three class II medical devices during the Relevant Period. The class III medical device is the myocardial protection cardioplegia solution* (心肌保護停跳液) that can be adapted to the cardioplegia and protection of orthotopic heart due to ischemia in surgery, and currently is an exclusive domestic product. Neptunus Fuyao is actively preparing for the relevant production conditions, aiming at launching it in the market as soon as possible. Meanwhile, Neptunus Fuyao is implementing the R&D of various products, which will lay the foundation of the sustainable development of the Group and Neptunus Fuyao.

On 15 July 2014, Neptunus Fuyao Pharmaceutical (Lianjiang) Co., Ltd. (“Neptunus Fuyao Lianjiang”) and Neptunus Jinxiang Chinese Pharmaceutical (Lianjiang) Co., Ltd. (“Neptunus Jinxiang Lianjiang”), both being indirect non-wholly owned subsidiaries of the Company, entered into land use rights transfer contracts (“Land Contracts”) with the Bureau of Land Resources of Lianjiang* (連江縣國土資源局) respectively, and the subject matters of the Land Contracts were “the land use rights of two pieces of land in Lianjiang County, Fuzhou City, the PRC which have been succeeded in the bid through the listing-for-sale process organised by the Bureau of Land Resources of Lianjiang on 19 April 2012”, and the total area of these two pieces of land was 191,607 sq.m. with total consideration of RMB36,220,000. These two pieces of lands will be used for the construction of the Lianjiang Production Base, a new production base of Neptunus Fuyao. Upon signing of the Land Contracts, the Company and Neptunus Fuyao is actively keeping communication with the local government departments in order to facilitate completing the delivery of the lands. Meanwhile, Neptunus Fuyao is carrying out environmental assessment and engineering design and other works for the construction of the Lianjiang Production Base so as to arrange the construction as soon as possible upon the delivery of the lands.

Purchase and Sales Of Medicines and Healthcare Food Business

The Purchase and Sales of Medicines and Healthcare Food Business was mainly operated by Neptunus Changjian. During the Relevant Period, Neptunus Changjian recorded a turnover totaling approximately RMB85,880,000, representing an increase compared with that of the corresponding period last year. During the Relevant Period, Neptunus Changjian has adopted the following measures to improve its revenue: (i) continued to optimize its sales team structure, provided better attention to the construction of the sales talent team so as to gradually build up a sustainable sales team; (ii) formulated different sales strategies according to different regional characteristics and marketing resources, thereby establishing the sales model that meets the requirement of market development; (iii) refined sales management, and implemented special management through division of big regions and key categories; (iv) streamlined workflow processes and improved the efficiency for serving the market. Neptunus Changjian has entered into strategic cooperation agreements with more than 10 key chain pharmacies across 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. During the Relevant Period, Neptunus Changjian commenced new GSP certification and the new GSP certificate was obtained in September 2014. The new GSP certification will not have significant influence on the business of Neptunus Changjian this year.



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

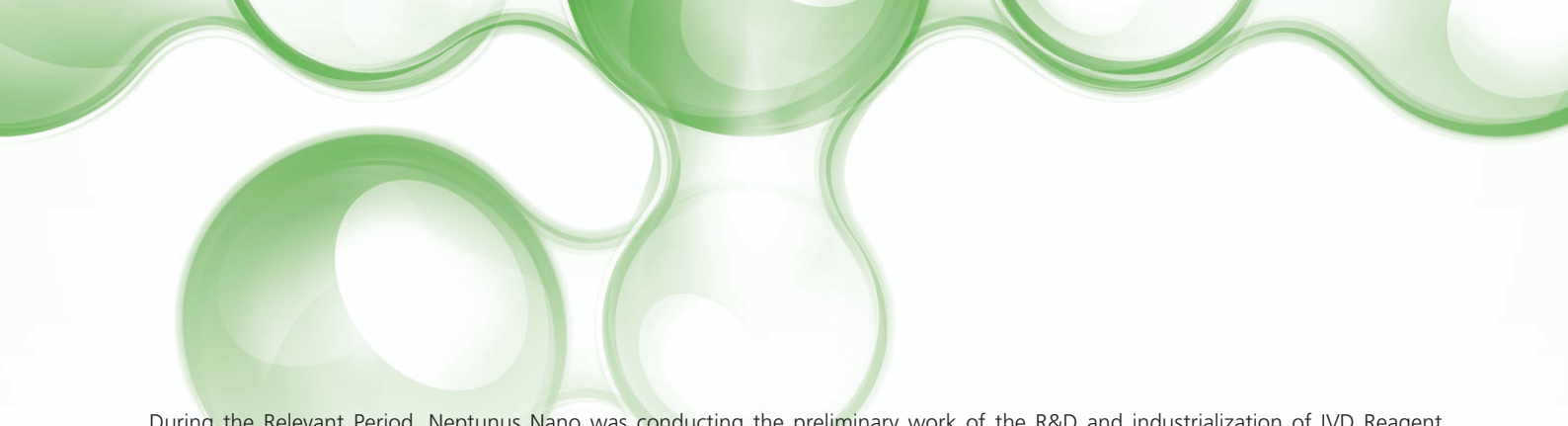
Recombinant Proteins and Polypeptide Drugs Business

At present, the focus of Jiangsu Neptunus, a wholly-owned subsidiary of the Company, is the debug and verification of production line of IVD Reagent products, clinical trial on recombinant human thymosin $\alpha 1$ for injection and application for technology transfer of recombinant human interleukin-2(125Ser) for injection. Jiangsu Neptunus' clinical trial on recombinant human thymosin $\alpha 1$ for injection is underway according to the plan. Phase II clinical trial started in the first quarter of 2013. At present, the enrollment of patients and detection and statistics of blood serums of subjects have been completed for many times, the results of which preliminarily demonstrated that the safety of using recombinant human thymosin $\alpha 1$ for injection is considered satisfactory, whereas its long-term curative effects will be subject to subsequent test results.

According to the requirement of relevant laws and rules, Jiangsu Neptunus has completed the process confirmation and verification work for the technology transfer of recombinant human interleukin-2(125Ser) for injection. It has also completed the relevant work on data integration and analysis and is now applying technology transfer registration. Along with the promotion of the R&D progress, Jiangsu Neptunus is required to continue to increase input in the R&D, which is estimated to cause adverse impact on the Group's profitability this year.

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 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 include: (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 a 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 the 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 be equal to 15% of the value of the JV Company which will be calculated as eight times of 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 Relevant Period, Neptunus Nano was conducting the preliminary work of the R&D and industrialization of IVD Reagent. Currently such preliminary work has been conducted smoothly, among which the R&D of two-type testing paper of C-reactive protein ("CRP") for medical diagnosis has entered into the latter stages, the pilot scale-up and pre-clinical tests are implemented by Neptunus Nano and Jiangsu Neptunus and the production process of such diagnostic reagents will be finalized in the near term. This is followed by the preparation for clinical products. Medical diagnostic quantitative devices are completing details enhancement and the debugging and optimization in respect of test paper matching. Neptunus Nano will also facilitate the commencement of the clinical trials of two items of medical diagnostic reagents as soon as possible. With respect to the high-sensitivity quantitative detection reagents for clenbuterol, ractopamine and salbutamol in food safety inspection, which are undergoing debugging detection reagent performance metrics, each kind of process confirmation will be completed in the near future. This is followed by the trial-production and a new round of large amount of samples comparing experiment, as well as the testing paper and inspection equipment matching. Furthermore, Neptunus Nano has gradually promoted the marketing of its core labelling material-quantum dots, with a view to expanding new source of income for Neptunus Nano by developing downstream long-term key customers in a controlled way. At present, details in respect of performance verification, cooperation model has been discussed with the first batch of key intention cooperation enterprises. In order to take advantage of its technology platform, and comply with the development hotspot in the medical diagnosis field, Neptunus Nano is conducting the feasibility analysis of mobile health inspection and exploring the R&D of products for mobile health inspection. Meanwhile, Neptunus Nano is also actively contacting various renowned international companies such as GE and Merck, hoping that it can gradually strengthen the influence of its own technology platform in the form of cooperation to carry out technical training and so on.

In line with the Group's development in IVD Reagent, the establishment work for the relevant production line of IVD Reagent products of Jiangsu Neptunus was launched in January 2014. During the Relevant Period, the relevant construction work was completed and the on-site acceptance examination in respect of Medical Device Production Corporate License* (醫療器械生產企業許可證) was passed. In July 2014, Jiangsu Neptunus obtained the Medical Device Production Corporate License. At present, Jiangsu Neptunus is introducing the R&D results of Neptunus Nano and conducting the preparatory works before production.

R&D Business

Since January 2009, the Company has been focusing on the R&D business of modern biological technology. During the Relevant Period, the Company 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 been completed at present. Whether the pilot scale-up research will be launched is yet to be decided pending the assessment of results of animal testing. The Group entered into academic subsidy and entrusted R&D agreements with Harbin Institute of Technology ("Harbin Institute") in 2012, 2013 and 2014 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 took place at the same time. Optimization and scale-up experiments are currently under progress.

With the State policy of supporting application of bio-technology in the field of agriculture, since 2012 the Company has 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 Relevant Period, the Company was granted the production license for mixed feed additives and the production approval for the relevant products. The Company is conducting production of the relevant products, striving to expand its capacity and lower its production costs, and the first product has been launched to the market in October 2014.

FINANCIAL REVIEW

The Group's turnover for the Relevant Period was approximately RMB478,346,000, representing an increase of approximately 4.7% from that of approximately RMB456,889,000 in the corresponding period last year. Turnover for the Relevant Period was mainly derived from the sales income of pharmaceutical products of Neptunus Fuyao and its subsidiaries and the sales income of drug and healthcare food of Neptunus Changjian. The increase in turnover was mainly due to two reasons: (i) affected by the new GMP certification of Neptunus Jinxiang and since the production and sales of small-dose injections of Neptunus Fuyao were in the phase of recovery, the turnover of Neptunus Fuyao and its subsidiaries decreased slightly in the first quarter of this year. However along with the elimination of such effects, turnover from Neptunus Fuyao and its subsidiaries increased steadily starting from the second quarter of this year; and (ii) turnover of Neptunus Changjian during the Relevant Period increased compared with that of the corresponding period last year.

The Group's gross profit and gross profit margin for the Relevant Period were approximately RMB201,186,000 and 42% respectively, increased by approximately RMB15,726,000 and 1% respectively compared with that of the corresponding period last year. The increase in gross profit increased was mainly due to two reasons: (i) During the Relevant Period, Neptunus Changjian's products have higher gross profit margin, and also the Group's share of turnover of Neptunus Changjian increased; and (ii) the Group's overall turnover during the Relevant Period increased compared with that of the corresponding period last year.

The Group's selling and distribution expenses for the Relevant Period amounted to approximately RMB74,506,000, representing an increase of approximately RMB4,810,000 from approximately RMB69,696,000 in the corresponding period last year. The selling and distribution expenses increased mainly because in order to expand the market and maintain an increase in the sales volume, Neptunus Changjian strengthened its sales efforts and increased its sales staffs.

The Group's administrative expenses for the Relevant Period amounted to approximately RMB40,042,000, representing a decrease of approximately RMB889,000 and 2%, as compared with approximately RMB40,931,000 in the corresponding period last year. The administrative expenses remained basically flat compared with that of the corresponding period last year.

The Group's other operating expenses for the Relevant Period amounted to approximately RMB36,715,000, representing a significant increase of approximately RMB11,033,000 from approximately RMB25,682,000 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 Relevant Period was approximately RMB8,143,000, representing an increase of approximately RMB2,508,000 from approximately RMB5,635,000 in the corresponding period last year, which was mainly due to (i) an increase in the total bank loans of Neptunus Fuyao and Jiangsu Neptunus; (ii) the shareholder's interest-bearing financial assistance obtained by Neptunus Fuyao from Shenzhen Neptunus Bio-engineering Co., Ltd. ("Neptunus Bio-engineering") on 5 June 2013 amounted to RMB27,000,000, which has not been repaid yet; and (iii) an advance obtained by Neptunus Fuyao from Neptunus Bio-engineering amounted to approximately RMB13,329,000, which was turned into the shareholder's interest-bearing financial assistance since 1 January 2014.

The Group's profit before taxation increased from approximately RMB46,037,000 for the corresponding period last year to approximately RMB55,287,000 for the Relevant Period.

The profit attributable to the owners of the Company decreased from approximately RMB38,089,000 for the corresponding period last year to approximately RMB32,063,000 for the Relevant Period. The profit attributable to the owners of the Company decreased mainly because Neptunus Fuyao was affected by the adjustment of tax rate of the PRC enterprise income tax during last year, which resulted in the decrease in deferred tax liabilities of approximately RMB13,966,000. This in turn significantly decreased the PRC enterprise income tax of the Group last year. The income tax effects brought from such factors have been eliminated during this year, therefore, the Group's profit after taxation decreased and in turn the profit attributable to the owners of the Company decreased.

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 30 September 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 30 September 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 RMB15,000,000 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 7.20%. The guarantee for this loan was provided by an independent third party guarantee company and the Company provided a counter-guarantee to the independent third party guarantee company. This loan has been extended to 10 June 2015.

Shareholder's Interest-bearing Financial Assistance

As at 30 September 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 7.20%. 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 30 September 2014, the shareholder's interest-bearing financial assistance obtained by Neptunus Fuyao from Neptunus Bio-engineering amounted to approximately RMB40,329,000. Such shareholder's interest-bearing financial assistance is unsecured and bearing an annual interest rate of 7.20%, and was used in the upgrading and improvement 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 was unsecured, bore an annual interest rate of 5% and was 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.

CONTINGENT LIABILITIES

As at 30 September 2014, the Group had no significant contingent liabilities.

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 30 September 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 (<i>Note 1</i>)	Beneficial owner	Personal	30,561,000	2.44%	1.82%
Mr. Yu Jun (<i>Note 2</i>)	Beneficial owner	Personal	1,014,000	0.08%	0.06%
Mr. Song Ting Jiu (<i>Note 3</i>)	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:

- 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").
- 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.
- 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 30 September 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 30 September 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 Relevant Period, 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 30 September 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:

- 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.
- 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.
- 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.
- 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 30 September 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 Relevant Period. 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 Relevant Period, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the "required standard of dealings" 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 Relevant Period. 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 Relevant Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As the Directors are aware, during the Relevant Period, 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.

BOARD DIVERSITY POLICY

Code provision A.5.6 of the Corporate Governance Code became effective on 1 September 2013, pursuant to which the nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report.

To comply with the new code provision A.5.6, the Company has adopted a board diversity policy (the “Policy”) with effective since 1 September 2013. Pursuant to the Policy, the nomination committee of the Company will review the Policy when appropriate to ensure the effectiveness of the Policy and will discuss any revisions that may be required to be considered and make disclosure of its review results in the Company’s corporate governance report annually.

On behalf of the Board

Shenzhen Neptunus Interlong Bio-technique Company Limited

Zhang Feng

Chairman

Shenzhen, the PRC, 7 November 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.

* For identification purpose only