



深圳市海王英特龍生物技術股份有限公司
SHENZHEN NEPTUNUS INTERLONG BIO-TECHNIQUE COMPANY LIMITED*
(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 8329



2006

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 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 information enquiries, confirm that, to the best of their knowledge and belief:– (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL SUMMARY (UNAUDITED)

- For the three months ended 31 March 2006 (the "Quarter"), turnover was approximately RMB7,382,000, representing a decrease of approximately 31.0% as compared with the corresponding period last year.
- The Company's loss before tax for the Quarter is approximately RMB2,884,000, increased by approximately RMB1,690,000 as compared with the corresponding period last year.
- The Company's loss attributable to equity holders for the Quarter was approximately RMB2,839,000 as compared with approximately RMB1,385,000 in the corresponding period last year.
- The board of Directors of the Company (the "Board") does not recommend the payment of any dividend for the three months ended 31 March 2006.

QUARTERLY RESULTS (UNAUDITED)

The Board of the Directors is pleased to announce the unaudited results of the Company for the three months ended 31 March 2006, together with the comparative unaudited figures for the same period in 2005, as follows:

CONDENSED INCOME STATEMENT (UNAUDITED)

For the three months ended 31 March 2006

	Notes	For the three months ended 31 March	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
REVENUE	3	7,382	10,689
Cost of sales		(1,363)	(1,384)
Gross profit		6,019	9,305
Other income and gain	3	184	125
Selling and distribution costs		(5,184)	(7,301)
Administration expenses		(2,628)	(2,062)
Other operating expenses		(732)	(995)
LOSS FROM OPERATING ACTIVITIES	4	(2,341)	(928)
Finance costs		(543)	(266)
LOSS BEFORE TAX		(2,884)	(1,194)
Tax	5	45	(191)
NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		(2,839)	(1,385)
DIVIDENDS	6	—	—
LOSS PER SHARE (RMB cent)			
Basic	7	(0.3)	(0.2)

NOTES TO THE UNAUDITED CONDENSED ACCOUNTS

1. Corporate information

The Company is a joint stock limited company incorporated in the People's Republic of China (the "PRC").

The Company is principally engaged in the research and development of modern biological technology, production and sale of cytokines category protein therapeutic drugs and biological products for disease prevention.

The unaudited condensed financial statements have been approved for issuance by the Board on 12 May 2006.

2. Basis of preparation

The unaudited condensed financial statements has been prepared in accordance with the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The policies adopted are consistent with those used in the preparation of the Company's audited financial statements for the year ended 31 December 2005.

They have been prepared under the historical convention. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3. Revenue

The Company conducts its business within one business segment – the business of manufacturing and selling medicine products. The Company also operates within one geographical segment because its revenue is primarily generated in Mainland PRC. Accordingly, no further business or geographical segment information is disclosed.

Revenue represents the net invoiced value of goods sold net of value-added tax after allowances for returns and trade discounts.

An analysis of the Company's revenue by business segments is as follows:

	For the three months ended 31 March	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Revenue		
Sales of rhIFN α 2b for injection	5,757	9,213
Sales of rhIL-2(125Ser) for injection	1,625	1,476
	7,382	10,689
Other income		
Interest income	128	85
Subsidy income	1	—
Others	55	40
	184	125
	7,566	10,814

(a) *Business segment*

Throughout the Quarter, the Company has been operating in a single business segment, i.e. the manufacture and sales of medicines. Accordingly, no business segment information is presented.

(b) *Geographical segment*

As the Company's revenue and results were substantially derived from the Mainland PRC and its operating assets and liabilities are also based in Mainland PRC, no geographical segment information is presented.

4. Loss from operating activities

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

	For the three months ended 31 March	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Cost of inventories sold	1,363	1,384
Recognition of prepaid land lease payments*	45	—
Depreciation	794	440
Amortisation of intangible assets*	265	265
Research and development costs**	719	756
Minimum lease payments under operating leases		
In respect of land and buildings	245	245
Staff costs		
Salaries and wages	3,570	3,143
Pension scheme contributions	143	42
Provision for doubtful debts**	—	340
Interest income	128	85

Notes:

* These amounts are included in "Cost of sales" on the face of the income statement.

** These amounts are included in "Other operating expenses" on the face of the income statement.

5. Tax

The Company is located in the Shenzhen Special Economic Zone and is therefore subject to a corporate income tax rate of 15%. In accordance with the relevant income tax laws and regulations in the PRC, the Company was exempt from corporate income tax for two years commencing from its first year with assessable profits after deducting the tax losses brought forward, and was entitled to a 50% tax exemption for the next three years.

The year ended 31 December 2004 was the fifth year since the Company's first year of operations with assessable profits and accordingly, the Company was entitled to a 50% exemption from income tax for the year ended 31 December 2004.

As a high technology enterprise, the Company obtained the approval in 2004 for a 50% exemption from corporate income tax for three more years until the year ending 31 December 2007. Accordingly, the Company was entitled to a 50% exemption from income tax for the year ended 31 December 2005.

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rates to the income tax expense at the Company's effective income tax rates for the year is as follows:

	For the three months ended 31 March	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Loss before tax	(2,884)	(1,194)
At statutory income tax rate of 7.5%	(216)	(90)
Tax effect on non-deductible expenses	171	281
Income tax charge at the Company's effective tax rate	(45)	191
The Company's effective tax rate	(1.6%)	(16.0%)

6. Dividends

No dividends were recommended by the Directors for the three months ended 31 March 2006 (three months ended 31 March 2005: Nil).

7. Loss per share

The calculation of basic loss per share for the three months ended 31 March 2006 is based on the unaudited net loss attributable to equity holders of the Company of approximately RMB2,839,000 (three months ended 31 March 2005: RMB1,385,000) and the weighted average number of 946,670,000 ordinary shares (three months ended 31 March 2005: 710,000,000) in issue during the year.

Diluted loss per share for the three months ended 31 March 2005 and 2006 have not been calculated because there were no potential dilutive ordinary shares existed during these years.

8. Reserves

The movements of reserves during the period for the three months ended 31 March 2005 and 2006 is as follows:

	Share premium account RMB'000	Statutory funds* RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005	—	2,910	9,251	12,161
Net loss for the Quarter	—	—	(1,385)	(1,385)
At 31 March 2005	—	2,910	7,866	10,776
At 1 January 2006	41,923	3,330	8,671	53,924
Net loss for the Quarter	—	—	(2,839)	(2,839)
At 31 March 2006	41,923	3,330	5,832	51,085

* The Company is required to follow the laws and regulations of the PRC and the Company's articles of association to provide for certain statutory funds, namely, the statutory surplus reserve fund and the statutory public welfare fund which are appropriated from net profit after tax but before dividend distribution.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial review

The Company's turnover for the Quarter is approximately RMB 7,382,000, representing a decrease of approximately 31.0% as compared with the corresponding period last year. The turnover of its major product, rhIFN α 2b for injection ("rhIFN α 2b for injection"), accounted for approximately 78.0% of the Company's total turnover for the Quarter. The decrease was mainly attributable to a reduction in the sales of the product rhIFN α 2b for injection. The turnover of the product rhIL-2 (125Ser) for injection ("rhIL-2 (125Ser) for injection") increased by approximately 10.1% as compared with the corresponding period last year. As rhIFN α 2b for injection is currently the major profitable product of the Company, the profitability of the Company is adversely affected.

The Company's gross profit and gross profit margin for the Quarter is approximately RMB 6,019,000 and 81.5% respectively, representing a decrease of approximately RMB 3,286,000 and 5.6% as compared with the corresponding period last year. The decrease in the total gross profit was attributable to a reduction in sales. Meanwhile, the fixed cost amortized in respect of unit product increased due to a decline in the production, resulting in a decrease in the overall gross profit margin.

The Company's sales and distribution expenses for the Quarter is approximately, RMB 5,184,000, decreased by approximately RMB 2,117,000 as compared with the corresponding period last year, representing a decrease of approximately 29.0%. This was mainly attributable to reduced sales and distribution expenses due to a decline in the sales, particularly as a result of fewer promotional and marketing activities.

The Company's administrative expenses for the Quarter is approximately RMB 2,628,000, increased by approximately RMB 566,000 as compared with the corresponding period last year, representing an increase of approximately 27.4%. The increase was mainly attributable to an increase in salaries as a result of additional staff recruited by the Company, the settlement of administration fees for listing and an increase in other management cost.

The Company's loss before tax for the Quarter is approximately RMB 2,884,000, increased by approximately RMB 1,690,000 as compared with the corresponding period last year. The increase was mainly attributable to a decline in sales and increase in administrative expenses and finance cost to different extents.

The Company's loss attributable to equity holders for the Quarter was approximately RMB2,839,000 as compared with approximately RMB1,385,000 in the corresponding period last year.

Business Review

During the period ended 31 March 2006, the Company mainly produced and sold two types of pharmaceuticals, namely rhIFN α 2b for injection and rhIL-2 (125Ser) for injection. At the same time, it also focused on developing vaccines for influenza such as preventive biological products. Such products were mainly sold in Mainland China with minor exports to the South Asia market.

International Market Business

For the period ended 31 March 2006, the Company's export business experienced continuous growth. The Company recorded sales at approximately RMB1,150,000 as compared with nil in the corresponding period last year. In addition, the Company cooperated with distributors in Indonesia and successfully completed the pharmaceutical registration of the product rhIFN α 2b for injection in Sri Lanka.

DEVELOPMENT AND RESEARCH

Development of New Product

The development of new products has proceeded smoothly. The Company has applied to the State Food and Drug Administration of the PRC ("SFDA") in January 2006 for the new drug registration and the new drug certificate in respect of the rIFN α 2b for injection effervescent tablets.

Influenza Vaccine

The Company's new product influenza vaccine has been granted the new drug certificate in 2005 and is in the process of applying for production approval. As at the date of this report, the Company has not obtained the relevant approval and the application is still being processed. The Company has received the satisfactory report issued by the National Institute for the Control of the Pharmaceutical and Biological Products (中國生物製品檢定所) and is applying to SFDA for the production approval. Upon obtaining the production approval, the Company will apply to SFDA for GMP certification. The vaccine is ready for production and launch after obtaining the GMP certification.

New Factory and Renovation of Production Facilities

The Company has completed construction of the renovated workshop with an area of approximately 3,722 square metres for producing influenza vaccines which is undergoing trial production. Upon the granting of the relevant approval, the factory can be officially put into use. In addition, production facilities for rIFN α 2b for injection effervescent tablets are under construction.

The new factory in Shenzhen Baoan Guangming Hi-Tech Industrial Park invested by the Company is used for expanding the production capacity of influenza vaccines and production of other new products. The construction of the main plant has been completed, pending the installation of equipment.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND SUPERVISORS IN THE ISSUED SHARES OF THE COMPANY

As at 31 March 2006, the beneficial interests (including interests and short positions in shares, underlying shares and debentures) of the Directors and supervisors in the registered share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (ii) pursuant to the required standard of dealings regarding directors' securities transactions set out in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company:

Director/Supervisor	Capacity	Type of Interests	Number of domestic shares held	Approximate percentage of the domestic shares	Approximate percentage of the Company's share capital
Mr. Chai Xiang Dong ¹	Beneficial owner	Personal	47,671,000	6.71%	5.04%
Ms. Wang Yan ²	Beneficial owner	Personal	14,200,000	2.00%	1.50%
Mr. Yu Jun ³	Beneficial owner	Personal	1,014,000	0.14%	0.11%

Notes:

- ¹ Being an executive Director and general manager of the Company.
- ² Being an executive Director of the Company.
- ³ Being a supervisor and an employee of the Company.

Long positions in shares of associated corporations:

Director	Capacity	Type of interest	Name of associated corporation	Numbers of shares/ percentage in associated corporation	Approximate percentage of associated corporation's share capital
Mr. Zhang Si Min ⁴ (Note (a))	Beneficial owner	Personal	Neptunus Bio-engineering	30,000	0.009%
Mr. Zhang Si Min (Note (b))	Beneficial owner	Personal	Ankeen Enterprises Limited	15%	15%

Notes:

- (a) Mr. Zhang Si Min holds 30,000 of the entire share capital of Shenzhen Neptunus Bio-engineering Company Limited ("Neptunus Bio-engineering"), the Company's controlling shareholder, which was the beneficial owner of approximately 67.5% of the issued share capital of the Company as at 31 March 2006.
- (b) Mr. Zhang Si Min holds 15% of the issued capital of Ankeen Enterprises Limited ("Ankeen Enterprises"), which in turn is beneficially interested in approximately 41.9% of the entire share capital of Shenzhen Neptunus Group Company Limited ("Neptunus Group"), which in turn is beneficially interested in approximately 49.08% of the entire share capital of Neptunus Bio-engineering, which in turn is beneficially interested in approximately 67.5% of the share capital of the Company as at 31 March 2006.

⁴ Being an executive Director and the chairman of the Company.

Save as disclosed above, as at 31 March 2006, none of the Directors, supervisors or chief executives of the Company had any interest or short position in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange (i) pursuant to Divisions 7 and 8 of Part XV of the SFO, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the required standard of dealings regarding directors' securities transactions set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, so far as the Directors are aware, the substantial shareholders (not being a director, a supervisor or a chief executive of the Company) holding shares and underlying shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or to be interested in, directly or indirectly, 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company, and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO or entered in the register kept by the Company, were as follows:

Long positions in shares of the Company:

Name of shareholders	Capacity	Type of interest	Number of domestic shares held	Approximate percentage of the domestic shares	Approximate percentage of the Company's share capital
Neptunus Bio-engineering	Beneficial owner	Personal	639,000,000	90%	67.5%
Neptunus Group (Note (a))	Interest of a controlled corporation	Corporate	639,000,000	90%	67.5%
Ankeen Enterprises (Note (b))	Interest of a controlled corporation	Corporate	639,000,000	90%	67.5%
Ms. Wang Jin Song (Note (c))	Interest of a controlled corporation	Corporate	639,000,000	90%	67.5%
Ms. Li Li (Note (d))	Interest of spouse	Family	47,671,000	6.71%	5.04%

Notes:

- Neptunus Group will be deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering as Neptunus Group is beneficially interested in approximately 49.08% of the entire share capital of Neptunus Bio-engineering.
- Ankeen Enterprises will be deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering as Ankeen Enterprises is beneficially interested in approximately 41.9% of the entire share capital of Neptunus Group, which in turn is beneficially interested in approximately 49.08% of the entire share capital of Neptunus Bio-engineering.
- Ms. Wang Jin Song ("Ms. Wang") will be deemed to be interested in the 639,000,000 shares of the Company held by Neptunus Bio-engineering as Ms. Wang is beneficially interested in 85% of the entire share capital of Ankeen Enterprises, which in turn is beneficially interested in approximately 41.9% of the entire share capital of Neptunus Group, which in turn is beneficially interested in approximately 49.08% of the entire share capital of Neptunus Bio-engineering.
- Li Li ("Ms. Li") will be deemed to be interested in the 47,671,000 domestic shares of the Company held by Mr. Chai Xiang Dong as Ms. Li is the spouse of Mr. Chai Xiang Dong and is taken to be beneficially interested in any shares in which Mr. Chai Xiang Dong is interested.

Save as disclosed above, as at 31 March 2006, the Directors and supervisors are not aware of any other persons (except the Directors and supervisors of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be entered in the register pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REPURCHASE OF LISTED SHARES OF THE COMPANY

The Company has not purchased, sold or repurchased any of the Company's listed shares during the three months ended 31 March 2006.

COMPLIANCE ADVISER'S INTEREST

Pursuant to the compliance adviser agreement dated 29 August 2005 entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser as required under the GEM Listing Rules for the period from 12 September 2005 to the date on which the Company complies with the Rule 18.03 of the GEM Listing Rules in respect of the Company's financial results for the year ended 31 December 2007. First Shanghai is paid for acting as the Company's compliance adviser.

As at the date of this report, as notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the securities of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the securities for the Company as at 31 March 2006.

COMPETING INTERESTS

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

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

Pursuant to the Non-Competition Undertakings, during the term of the Non-Competition Undertakings, when Neptunus Bio-engineering or its associates enter into any negotiations, within or outside PRC, in relation to any new investment project which may compete with the existing and future business of the Company, the Company is also entitled to the preferential right of investment in such new investment projects.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2006, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, all the Directors have confirmed that they did not conduct any transaction in respect of the Company's securities during the above mentioned period and the Company is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

AUDIT COMMITTEE

The Company established an Audit Committee on 21 August 2005 with terms of reference in compliance with the Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company's annual report and financial statements, half-year reports and quarterly reports, and to provide suggestions and opinions thereon to the Board. In addition, the Audit Committee members will also meet with the management to review the accounting principles and practices adopted by the Company and to discuss matters relating to the auditing, internal control system and financial reporting process of the Company. The Audit Committee comprises one non-executive Director, namely Ms. Yu Lin and two independent non-executive Directors, namely Mr. Yick Wing Fat, Simon and Mr. Poon Ka Yeung. Mr. Yick Wing Fat, Simon is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed results for the three months ended 31 March 2006.

By order of the Board
Shenzhen Neptunus Interlong Bio-technique Company Limited
Zhang Si Min
Chairman

Shenzhen, the PRC, 12 May 2006