Venturepharm Laboratories Limited
萬全科技藥業有限公司*

(incorporated in the Cayman Islands with limited Liability)

Interim Report
For the six months ended 30th June, 2003

* *For identification purpose only*

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This report, for which the directors of Venturepharm Laboratories Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading;(2) there are no other matters the omission of which would make any statement in this report misleading;(3) all opinions expressed in this report have been arrived at after due and careful consideration and founded on bases and assumptions that are fair and reasonable.

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FINANCIAL HIGHLIGHTS

1. Achieved an unaudited turnover of approximately RMB11,083,000 for the six months ended 30th June, 2003, representing an approximately 16 per cent. increase as compared with the turnover for the corresponding period in 2002.
2. Accomplished an unaudited net profit of approximately RMB4,204,000 for the six months ended 30th June, 2003.
3. The board of directors do not recommend the payment of interim dividend for the six months ended 30th June, 2003.
4. Maintained a strong financial position with cash and bank balance of approximately RMB23,520,000 as at 30th June, 2003.
5. Successfully listed on the GEM of the Stock Exchange on 10th July, 2003 with additional funding of approximately HK$28 million to support the Company's business expansion.

INTERIM RESULT

The board of the directors (the "Directors") of Venturepharm Laboratories Limited (the "Company") is pleased to announce the unaudited condensed interim financial statements of the Company and its subsidiaries (the "Group") for the three months and six months ended 30th June, 2003, together with the comparative figures.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the six months ended 30th June, 2003, the Group achieved a revenue turnover of approximately RMB11.1 million, representing a 16 per cent. increase as compared to the same period in 2002. This was achieved despite the SARS outbreak in China. Approximately 55.49 per cent. of the Group's turnover, amounting to approximately RMB6.2 million, was derived from technology transfer. Approximately 41.56 per cent. of the turnover, representing approximately RMB4.6 million, was revenue from providing pharmaceutical development services and clinical research services based on formulations developed by the Group. The remaining 2.95 per cent., representing approximately RMB0.3 million, was generated from the provision of pharmaceutical development services and clinical research services based on the drug technologies provided by customers. The Group attained an overall gross profit margin of approximately 79.3 per cent. in the period under review, while it was approximately 80.9 per cent. in the same period of 2002. The directors considered the change is acceptable.

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In respect of technology transfer business, the Group had successfully transferred 7 projects with aggregate contract value of RMB12.9 million in the period under review, compared to 5 projects in the same period of 2002. As a common cycle to the Group's business, the first half of each year is considered slow season in the market of the People's Republic of China ("PRC"). Customers would normally take the first half of a year to evaluate new products against their annual budgets and business plan, and conclude the purchase in the second half of the year. Based on to the Group's experience, majority of the contracts are concluded during the last quarter of a year when major pharmaceutical exhibitions and trade fairs take place.

The Group's general and administrative expenses mainly comprise staff costs, provision against trade debts, provision against work-in-progress and depreciation. For the period under review, the general and administrative expenses of the Group amounted to approximately RMB3.9 million and sharply increased by approximately RMB1.1 million from approximately RMB2.8 million for the corresponding period in 2002, representing approximately 39 per cent. increase. The change in general and administrative expenses was mainly attributable to the increase in staff cost (2003: approximately RMB1.5 million; 2002: approximately RMB0.7 million) and provision against trade debts (2003: approximately RMB1.5 million, 2002: approximately RMB0.6 million), and the decrease in provision against work-in-progress (2003: approximately RMB0.1 million; 2002: approximately RMB0.5 million). The increase in staff cost mainly resulted from an increase in total number of staff and the recruitment of more professional staff with higher average salary.

According to the Group's accounting policy for provision against work-in-progress, for projects of which submission cannot be made to the Beijing Drug Administration Bureau ("BDA") within 15 months of project commencement, 50 per cent. of the related cost recorded in work-in-progress will be provided for. The remaining 50 per cent. will be provided for if no submission was made within 20 months of commencement. For projects not attaining the stage for applying Clinical Study Permit within 12 months from the date of submission to BDA, 50 per cent. of the cost will be provided for. The remaining 50 per cent. will be provided for if the Clinical Study Permit cannot be obtained within 18 months after the initial submission. The Directors believe that the increase in the provision of RMB0.1 million in the period under review was largely due to delay in BDA's approval process caused by SARS.

As far as bad debts provision is concerned, the Group has adopted a consistent policy, under which a provision will be made against the trade debts after a 180-day period. It is the understanding of the Group that the payment delay, which resulted in increase in bad debts provision for the period under review, was mainly caused by business restructuring activities of some debtors. Payments are expected to be forthcoming once the restructuring processes are complete.

The net profit before tax was approximately RMB5.03 million, representing a slight increase of approximately 0.6 per cent. as compared to that of the corresponding period in 2002. A higher percentage of the Group's profit has become subject to PRC income tax after expiration of tax exemption period of a PRC subsidiary. Net profit attributable to the Group's shareholders reached approximately RMB4.2 million, accounting for an approximately 9 per cent. decrease comparing to the corresponding period in 2002.

As of 30th June, 2003, the Group had net current assets of approximately RMB37.4 million, comprising approximately RMB23.5 million in the form of cash and bank balances. The current ratio of the Group (defined as current assets to current liabilities), was approximately 7.9 times. The Directors are of the opinion that the Group was in a healthy financial position and was capable of meeting its liabilities.

During the period under review, the Group did not enter into any loan agreement with any financial institution. The Group has been financing its business expansion by internally generated resources. The gearing ratio of the Group, which is defined as net borrowings as a percentage of shareholders fund, remained zero. The Directors advised that local banks in Beijing indicated their interests in providing the Group with loan facilities, and the Group may consider making use of borrowings if there are any business opportunities for maximizing shareholder's interests. For the period under review, the Group did not place any charges on its assets. Other than those disclosed in note 1 of the notes to condensed financial statements, there had not been any material acquisitions or disposals of subsidiaries during the period under review.

Other than those disclosed in the section headed "Statement of Business Objectives" in the prospectus of the Company dated 30th June, 2003, the Group has no plan for material investments or capital assets. The cash inflow and outflow of the Group are mainly in RMB, and the assets and liabilities are denominated in either RMB or USD. Due to the adoption of steady foreign exchange policy by the PRC government, the Directors are of the opinion that the Group is not substantially exposed to foreign currency risks. The Group had no material contingent liabilities as of 30th June, 2003.

Business Review

Throughout the period under review, the Group was engaged in pharmaceutical R&D including development of drug entity, R&D in drug delivery system, pre-clinical and clinical work for relevant drug projects and provision of related services.

R&D and Application Progress

The Group's development works progressed well in the first half of year 2003, albeit the impact from SARS. The Group's R&D pipeline underwent continuous expansion according to operational plan and a total of 28 new projects were launched for pre-clinical development in the Group's laboratories.

Submission to the government organisations and clinical trials were affected to some extent. However, in second half of June 2003, all operational activities were reverted to their normal level. 29 submissions were made to The State Food and Drug Administration ("SFDA") in the same period for Clinical Study Permits while the Group was granted with Clinical Study Permits for 27 projects. During the said period, the number of projects under clinical stage peaked at 47. In the same period, the Group obtained Manufacture Permits of 4 new products for commercialization and submitted 7 applications for new products for the same purpose. By the end of 30th June, 2003, the Group was engaged in 250 drug projects either on its own or pursuant to the technology transfer agreements with its customers.

Based on the Group's product technology platforms, the Group filed 6 new patent applications to the State Intellectual Property Office ("SIPO") while 8 other previous applications passed the initial evaluation and entered the formal assessment stage before granting the patents. By the end of 30th June, 2003, the Group submitted a total of 25 patent applications to SIPO.

Sales and Marketing

The outbreak of SARS affected the marketing activities of the Group to some extent as many potential customers temporarily halted their operations and almost no visit to customers can be done. Under this adversed situation, however, the Group continued to promote new products to their existing and potential customers through email and telephone.

Despite the above, during the current period, the Group signed 6 technology transfer contracts for 7 products with a total value of approximately RMB12.9 million and clinical research contracts with a total value of approximately RMB3.37 million.

Risk Management

Throughout the SARS period, many government agencies in Beijing maintained only partial operation. At the onset of the event, the Group successfully designed and implemented crisis management measures aiming at safeguarding the financial asset of the company, progress of all projects underway and the well-being of all employees. The Group maintained regular contact and liaison with related government departments and our customers by alternate channels such as daily telephone call and internet.

The Group's operation was somewhat affected, but the most important objective of the campaign was achieved: that has been no member of employees nor any Group property was contaminated by the pathogen. The Directors envisage no long-term impact on our operation from the past SARS event.

The Group has expedited a project for the treatment of SARS related symptoms and the project is now under evaluation by the concerned government departments.

Prospects

Leveraging on its track record in R&D of new drugs and its established customer base in the PRC, the Group is to capitalise on the substantial and growing market of the PRC as a leading R&D specialist. It is the Group's mission to become one of the leading integrated pharmaceutical groups in the PRC with enhanced capability also in the sales and marketing and manufacturing.

To achieve this, the Group has adopted various growth strategies such as expanding product pipeline; offering more comprehensive and integrated development services; integrating its business operation vertically; pursuing strategic acquisition; expanding overseas markets and building brand recognition.

As of 30th June, 2003, the Group has a substantial pipeline of 250 products and it will continue to expand rapidly in the coming years. More than 25 new projects are expected to begin pre-clinical development in the Group's laboratories. The Group is also preparing for commercialization of its portfolio with over 10 Manufacture Permits expected in the second half of 2003.

The Directors consider most of the pharmaceutical companies in the PRC not having full capability in conducting R&D on new products and there is an increasing demand for pharmaceutical development services and clinical research services. The Group has therefore assigned a special team of staff to explore the market and promising response is expected.

To capture the best profit potentials, the Group will identify projects with great potentials of market demand and retain such projects for commercialisation under the "Venturepharm" brand. The Group intends to launch its "Venturepharm" branded drug products by the end of 2003.

To expand its manufacturing capability, the Group is in the process of selecting a GMP manufacture site and the decision is expected to be made by the end of 2003. The manufacturing facility will help the Group in extending its business vertically in the supply chain of the pharmaceutical products.

The Group has been engaged in serious discussions with potential strategic partners for joint investments which is expected to be complementary to the business of the Group. One or two co-operations in the form of joint ventures or others might be finalized within one year. However, no agreement in whatever form has been concluded among the parties as at the date hereof.

With respect to brand recognition, senior company personnel are assigned to actively take part in major domestic and international fairs aiming at expanding the Group's clientele and product base as well as to promote the corporate brand-building campaign.

The Group performed steadily during the period under review. On the other hand, the Directors believe that there is a bright outlook for the Group's financial performance in the foreseeable future on the understanding that (1) there is a rapidly expanding pipeline held by the Group which are ready for commercialization; and (2) there is an increased market recognition of the Group's "Venturepharm" brand name; and (3) the growing demand for good quality drugs by manufacturers is substantial.

As at 30th June, 2003, the Group has entered into contracts for technology transfer and the provision of pharmaceutical development and clinical research services for an aggregate contract sum of over RMB149.4 million, of which only approximately RMB65.4 million has been recognized as revenue in the Group's financial statements up to 30th June, 2003.

The success of the listing on GEM has also provided additional funds around HK$28 million to support the Group's future growth and development.

Information on employees

As of 30th June, 2003, the Group had a total of 168 employees, the majority of whom were engaged in research and development activities. Employees are remunerated according to industry practice, individual's performance and work experience. In addition to basic salaries and retirement scheme, staff benefits also include share options.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited Six months ended 30th June, 2003 RMB'000	Unaudited Six months ended 30th June, 2002 RMB'000	Unaudited Three months ended 30th June, 2003 RMB'000	Unaudited Three months ended 30th June, 2002 RMB'000
Turnover	3	**11,083**	9,550	**9,276**	7,639
Cost of sales		**(2,289)**	(1,815)	**(1,815)**	(1,663)
Gross profit		**8,794**	7,735	**7,461**	5,976
Other revenue	3	**129**	67	**76**	81
General and administrative expenses		**(3,892)**	(2,800)	**(2,651)**	(2,194)
Operating profit	5	**5,031**	5,002	**4,886**	3,863
Profit before taxation		**5,031**	5,002	**4,886**	3,863
Taxation	6	**(702)**	(172)	**(502)**	(172)
Profit after taxation		**4,329**	4,830	**4,384**	3,691
Minority interests		**(125)**	(183)	**(128)**	(109)
Profit for the year		**4,204**	4,647	**4,256**	3,582
Earnings per share					
– Basics (RMB)	8	**0.016**	0.017	**0.016**	0.013
– Diluted (RMB)		**N/A**	N/A	**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**Unaudited As at 30th June, 2003** ***RMB'000***	Audited As at 31st December, 2002 *RMB'000*
Non-current assets			
Fixed assets		**4,379**	3,983
		4,379	3,983
Current assets			
Work-in-progress		**15,004**	10,529
Trade receivables	9	**2,306**	2,190
Other receivables, deposits and prepayments		**1,415**	890
Amounts due from related companies	11	**613**	1,005
Cash and bank balances		**23,520**	23,616
		42,858	38,230
Current liabilities			
Trade and other payables	10	**847**	480
Receipt in advance		**3,993**	2,834
Taxes payable		**609**	843
		5,449	4,157
Net current assets		**37,409**	34,073
Total assets less current liabilities		**41,788**	38,056
Minority interests		**866**	742
Net assets		**40,922**	37,314
Financed by:			
Shareholders' equity		**40,922**	37,314

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30th June, **2003** ***RMB'000***	 2002 *RMB'000*
Net cash inflow from operating activities	**1,523**	3,508
Net cash outflow from investing activities	**(792)**	(1,590)
Net cash inflow before financing	**731**	1,918
Net cash outflow from financing activities	**(827)**	(726)
Net increase(decrease) in cash and cash equivalents	**(96)**	1,192
Cash and cash equivalents at beginning of the period	**23,616**	2,160
Cash and cash equivalents at end of the period	**23,520**	3,352

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital *RMB'000*	Share issuance cost *RMB'000*	Statutory reserve *RMB'000*	Statutory enterprise expansion fund *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 31st December, 2001	8,402	–	1,115	2,239	2,227	13,983
Profit attributable to Shareholders	–	–	–	–	19,127	19,127
Transfer from retained profit	–	–	883	2,942	(3,825)	–
Contribution from shareholders	6,622	–	–	–	–	6,622
Share issuance costs	–	(2,418)	–	–	–	(2,418)
At 31st December, 2002	15,024	(2,418)	1,998	5,181	17,529	37,314
Profit attributable to Shareholders	–	–	–	–	4,204	4,204
Contribution from shareholders	–	–	–	–	–	–
Share issuance costs	–	(596)	–	–	–	(596)
At 30th June, 2003	**15,024**	**(3,014)**	**1,998**	**5,181**	**21,733**	**40,922**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Group reorganization and basis of presentation

The Company was incorporated in the Cayman Islands on 21st May, 2002 as a company with limited liability under the Companies Law (2001 Revision) of the Caymans Islands. On 31st March, 2003, pursuant to a group reorganization (the "Reorganization") in preparation for the listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding companies of the companies now comprising the Group. Details of the Reorganization are set out in the prospectus of the Company dated 30th June, 2003 (the "Prospectus"). The shares of the Company were successfully listed on GEM on 10th July, 2003.

For the purpose of this report, the combined financial information present the combined results and financial position of the Group as if the Group (including subsidiaries) had been in existence since 1st January, 2002, or their respective date of incorporation, whichever is the shorter period and as if the assets and liabilities were transferred to the Company as of the earliest period presented.

The condensed financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the GEM Listing Rules.

All significant intra-group transactions and balances have been eliminated on combination.

2. Principal accounting policies

The accounting polices adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Accountants' Report as set out in Appendix I of the Prospectus, except for the Group's adoption of the following revised SSAP issued by HKSA which are relevant to the Company and effective for accounting period commencing on or after 1st January, 2003:

SSAP 12 (revised)	Income Taxes

The changes to the Group's accounting policies and the effect of adopting the revised policies are set out below:

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit of the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credit directly to equity, in which case the deferred tax is also dealt with in equity.

There is no material impact on the condensed financial statements of the Group by the adoption of the SSAP mentioned above.

3. Turnover and revenue

The Group is principally engaged in developing and transferring new drug formulation data and providing related pharmaceutical application, registration and testing services. Revenues recognised during the periods were as follows:

	Unaudited	Unaudited	Unaudited	Unaudited
	Six months ended 30th June,		Three months ended 30th June,	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Turnover				
– Transfer of technology for new drug and new drug development.	**6,150**	5,300	**6,150**	5,300
– Contracted pharmaceutical development services and clinical research services associated with technology transfer by the Group	**4,606**	4,194	**2,806**	2,283
– Contracted pharmaceutical development services and clinical research services not associated with technology transfer by the Group	**327**	56	**320**	56
	11,083	9,550	**9,276**	7,639
Other revenue				
– Interest income	**90**	11	**44**	5
– Other professional service	**39**	56	**32**	76
	129	67	**76**	81
Total revenue	**11,212**	9,617	**9,352**	7,720

4. Segment information

No geographical segment analysis is presented as all assets and operations of the Group for the periods are located in the PRC.

No business segment analysis is presented as all operations of the Group for the periods are related to pharmaceutical research and development, registration, application and testing.

5. Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited	Unaudited	Unaudited	Unaudited
	Six months ended 30th June,		**Three months ended 30th June,**	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Crediting:				
Net exchange gains	**3**	–	**3**	1
Charging:				
Depreciation of owned fixed assets	**486**	336	**244**	231
Less: amount capitalised in work-in-progress	**(404)**	(275)	**(201)**	(199)
	82	61	**43**	32
Staff costs (includes directors' emoluments) including	**3,600**	2,590	**1,775**	1,247
Salary	**3,320**	2,428	**1,654**	1,115
Benefit	**280**	162	**121**	132
Less: amount capitalised in work-in-progress	**(2,085)**	(1,930)	**(1,043)**	(888)
	1,515	660	**732**	359
Auditors' remuneration	–	16	–	16
Operating lease rentals in respect of land and buildings	**42**	111	**33**	68
Provision against the receivables	**1,460**	630	**1,090**	630
Net exchange loss	–	3	–	–
Research costs	**4**	362	–	362
Provision against work-in-progress	**117**	459	**117**	459

6. Taxation

	Unaudited	Unaudited	Unaudited	Unaudited
	Six months ended 30th June,		Three months ended 30th June,	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Company and subsidiaries				
PRC income tax	**702**	172	**502**	172
	702	172	**502**	172

No Hong Kong profits tax has been provided for, as the Group had no taxable profits in Hong Kong for the six months ended 30th June, 2003 (2002: Nil). The Company's subsidiaries are subject to PRC income tax on their assessable profits.

Beijing Dezhong-Venture Pharmaceutical Technology Development Company Limited ("Dezhong VP") and Beijing Venture-Biopharm Services Company Limited ("V Biopharm") which are the major operating subsidiaries of the Group qualify as foreign investment industrial and advance technology enterprises and are subject to PRC enterprise income tax at a rate of 15 per cent. on its income after offsetting prior year's losses. However, they are exempted from PRC enterprise income tax for three years starting from the first year of profitable operations after offsetting prior year's tax losses, followed by a 50 per cent. reduction for the following three years.

The PRC income tax is computed according to the relevant laws and regulations in the PRC. Dezhong VP was subject to PRC enterprise income tax at a rate of 7.5 per cent. from 1st January, 2002 to 31st December, 2004 and 15 per cent. thereafter. V Biopharm was subject to PRC enterprise income tax at 7.5 per cent. from 1st January, 2003 to 31st December, 2005 and 15 per cent. thereafter.

As approved by the tax authorities, Dezhong VP and V Biopharm also benefit from the exemption of the business tax applicable to revenue derived from technology transferred and services provided pursuant to contracts registered in the Beijing Technology Market Administration Office. The tax authorities require the subsidiaries to pay business tax first but will refund to the subsidiaries upon approval. The companies recognise such refund upon receipt.

The charge for the period can be reconciled to the profit per the income statement as follows:

	Unaudited Six months ended 30th June,		**Unaudited Three months ended 30th June,**	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit before tax	**5,031**	5,002	**4,886**	3,863
Applicable tax rate	**7.5%**	7.5%	**7.5%**	7.5%
Tax at applicable tax rate	**377**	375	**366**	290
Tax effect of expenses that are not deductible in determining taxable profit	**161**	109	**114**	109
Tax effect on revenue recognized under different Accounting Practices between Hong Kong and PRC	**164**	(183)	**22**	(104)
Tax effect of non-taxable income under tax exemption	**–**	(129)	**–**	(123)
Tax expenses	**702**	172	**502**	172
Effective tax rate for the period	**14%**	3.4%	**10.3%**	4.4%

There was no material unprovided deferred tax liability or asset expected to be payable or recoverable in the foreseeable future recognised in the condensed financial statements of the relevant periods.

7. Dividends

The board does not recommend the payment of an interim dividend for the six months ended 30th June, 2003. (2002: Nil)

8. Earnings per share

The calculation of basic earnings per share for the three months and six months ended 30th June, 2003 is based on the net profit of approximately RMB4,256,000 and RMB4,204,000 (three months and six months ended 30th June, 2002: approximately RMB3,582,000 and RMB4,647,000) respectively on the assumption that the capitalization issue had taken place before 1st January, 2002 and 270,000,000 shares of the Company had been in issue throughout the periods under review and taking no account of 90,000,000 new shares issued pursuant to the listing.

No diluted earning per share has been presented as the Company has not yet been listed during the periods, resulting in no diluting effects.

9. Trade receivables

	30th June, 2003 *RMB'000*	31st December, 2002 *RMB'000*
Trade receivables	**4,513**	2,937
Provision against trade receivables	**(2,207)**	(747)
	2,306	2,190

The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	30th June, 2003 *RMB'000*	31st December, 2002 *RMB'000*
0 to 90 days	**2,285**	1,720
91 to 180 days	**21**	470
181 to 365 days	**1,590**	747
Over 365 days	**617**	–
	4,513	2,937

Full provision is made against trade receivables from third parties, which are aged over 180 days as at the end of the related periods.

10. Trade and other payables

	30th June, 2003 *RMB'000*	31st December, 2002 *RMB'000*
Trade payables	**31**	31
Other payables	**816**	449
	847	480

The ageing analysis of trade payables at the respective balance sheet dates is as follows:

	30th June, 2003 *RMB'000*	31st December, 2002 *RMB'000*
0 to 90 days	**761**	406
91 to 180 days		
181 to 365 days	**22**	43
Over 365 days	**64**	31
	847	480

11. Related party transactions

Significant related party transactions are as follows:

Name of related party	**Nature of the transaction**	*Notes*	**30th June, 2003** *RMB'000*	30th June, 2002 *RMB'000*
Venturepharm Inc. ("VP Inc.")	Revenue – Contracted R&D, pharmaceutical application, registration and testing service	(a)	**613**	1,063
Sanmenxia Sinoway Pharmaceutical Co., Ltd. ("Sinoway Pharmaceutical")	Other receivable – short-term loan	(b)	–	347
VP Inc.	Trade receivable	(a)	**613**	1,828

Notes:

(a) VP Inc. which is a subsidiary of the ultimate holding company of the Company, Venturehparm Holdings Inc., engaged the Group to research and develop six new drugs and provide related pharmaceutical application, registration and testing services. The total contract value is RMB6.6 million, which were, in the directors' opinion, conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group. The transaction has not yet been completed as at 30th June, 2003.

(b) The balance relates to a loan to Sinoway Pharmaceutical, which is unsecured, interest free and without fixed repayment term. The balances have been fully settled as of 31st December, 2002.

On 23rd September, 2002, the Group entered into a cooperation agreement with Sinoway Pharmaceutical, pursuant to which:

Sinoway Pharmaceutical will provide contract manufacturing services to the Group on a cost-plus basis, based on technologies to be provided by the Group. The Directors believe that the aggregate fees payable to Sinoway Pharmaceutical under this agreement will not exceed RMB1 million in the financial year ending 31st December, 2003. The Group has retained the right to entrust other manufacturers to manufacture its pharmaceutical products. Details of the agreement with Sinoway Pharmaceutical are disclosed in the Prospectus.

The Group sent the salesmen to Sinoway Pharmaceutical to provide marketing and promotion services for products manufactured by Sinoway Pharmaceutical. According to the secondment agreement signed in September 2002, the salesmen's salary is borne by the Sinoway Pharmaceutical. The salary expenditure with RMB420,000 for the six months ended 30th June, 2003 has been deducted from the Company's labor cost accordingly. The Directors believe that the aggregate amount payable per year under this agreement will not exceed RMB1 million during the year ending 31st December, 2003. Details of the agreement with Sinoway Pharmaceutical are disclosed in the Prospectus.

12. Subsequent Events

Immediately after the balance date, the Company successfully issued 90,000,000 ordinary shares at HK$0.41 to public investors and listed on GEM market on 10th July, 2003.

DISCLOSURE OF INTEREST

a. Interests of the Directors and Chief Executives

As at 10th July, 2003, the date of listing, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange 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 provision of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.40 of the GEM Listing Rules.

Long positions in shares and underlying shares of the Company

(1) The Company

Name	Type of Interest	Capacity	Number of shares in which interested (other than under equity derivatives)	Number of shares in which interested under physically settled equity derivatives *(Note 3)*	Total number of shares	Approximate percentage of interest
Guo Xia	Personal	Beneficial owner	9,110,377	7,200,000	16,310,377	4.53
Guo Xia	Corporate	Interest of a controlled Corporation *(Note 1)*	149,432,583		149,432,583	41.51
Guo Xia	Corporate	Interest of controlled corporation *(Note 2)*	15,966,073		15,966,073	4.44
Uri Law Tak Kau	Personal	Beneficial owner	39,081	1,800,000	1,839,081	0.51
Philip Yuen Pak Yiu	Personal	Beneficial owner	4,128,573		4,128,573	1.15

Note 1: The controlled corporation, Venturepharm Holdings Inc., is 47.63 per cent. directly held by Mr. Guo Xia and 34.68 per cent. held by Mr. Guo Xia through Winsland Agents Limited, his wholly and beneficially owned company incorporated in British Virgin Islands.

Note 2: The controlled corporation, Bright Excel Assets Limited, is 100 per cent. beneficially owned by Venturepharm Holdings Inc..

Note 3: Various interests of the directors and chief executives pursuant to physically settled equity derivatives are through share options granted under the Pre-IPO share option scheme. Details of which are set forth as follows:

Name	**Number of shares in which interested under physically settled equity derivatives as at 20th June, 2003 and 30th June, 2003**	**Date of Grant**	**Exercise Price**
Guo Xia	7,200,000	20th June, 2003	HK$0.32
Uri Law Tak Kau	1,800,000	20th June, 2003	HK$0.32

Options granted to each of them contain a vesting schedule, pursuant to which may exercise up to 30 per cent. of the underlying shares after 31st December, 2003, up to another 30 per cent. of the underlying shares after 31st December, 2004 and the balance after 31st December, 2005. These options will expire ten years after the date of grant. Each of the grantees has also undertaken to the Stock Exchange that they will not exercise their options granted under the Pre-IPO share options scheme within the first 12 months from the listing date.

(2) *Associated Corporation – Dezhong VP*

Name	**Type of Interest**	**Capacity**	**Capital contribution on a Sino-foreign co-operative joint venture**	**Approximate percentage of contributions to shareholding in joint venture**
Guo Xia	Corporate	Interest of a controlled Corporation *(Note 1)*	US$111,000	12.83

Note 1: The interest is held by Beijing Venturepharm Biotech Pharmaceutical Technology Company Limited, a limited liability company incorporated in the PRC, for which 79 per cent. of its shareholding is beneficially held by Mr. Guo Xia. For the remaining 21 per cent. shareholding, 20 per cent. held by Dr. Uri Law Tak Kau and 1 per cent. held by Dr. Song Xue-mei. All three are executive directors of the Company.

Save as disclosed above, at the date of listing, none of the directors and chief executive had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange 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 (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.40 of the GEM Listing Rules.

b. Interest of the Substantial Shareholders in the Company

So far as was known to any directors or chief executive of the Company as at 10th July, 2003, the date of listing, the persons or companies (not being a director of chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10 per cent. 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 Group were as follows:

Long position in shares of the Company

Name	Capacity	Number of Shares	Approximate percentage of interest
Venturepharm Holdings Inc. *(Note 1)*	Beneficial owner	149,432,583	41.51
Venturepharm Holdings Inc. *(Note 2)*	Interest of a controlled corporation	15,966,073	4.44
C Tech Fund	Beneficial owner	80,736,558	22.43
Guo Xia *(Note 1, 2 & 3)*	Beneficial owner and interest of controlled corporations	181,709,033	50.48

Note 1: Venturepharm Holdings Inc. is 47.63 per cent. directly held by Mr. Guo Xia and 34.68 per cent. held by Mr. Guo Xia through Winsland Agents Limited, his wholly and beneficially owned company incorporated in British Virgin Islands.

Note 2: The controlled corporation, Bright Excel Assets Limited, is 100 per cent. beneficially owned by Venturepharm Holdings Inc..

Note 3: Apart from shares held through Venturepharm Holdings Inc., the shares in the number of 16,310,377 are beneficially owned by Mr. Guo Xia (including 7,200,000 shares underlying the options granted to him under the Pre-IPO share option scheme).

Save as disclosed above, at the date of listing, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10 per cent. or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

SHARE OPTION SCHEMES

1. Pre-IPO Share Option Scheme

Pursuant to the written resolution passed by the shareholder on 31st March, 2003, the Company adopted a Pre-IPO share option scheme in order to recognise and reward the contribution of certain directors, senior management and advisers, the details of which are set out in the paragraphs headed "Share Option Schemes" in Appendix IV to the Prospectus. As at 20th June, 2003, options comprising a total of 11,520,000 underlying shares were granted. As at 30th June, 2003, the options outstanding are 11,520,000 and no options granted pursuant to the Pre-IPO share option scheme had been exercised, cancelled or lapsed. Particulars of the outstanding options which have been granted under the Pre-IPO share option scheme as at 30th June, 2003 are as follows:

Name of grantees	Period during which the options remain exercisable after the date of grant	Exercise price per shares	Number of underlying shares under the option as at 20th June, 2003 and 30th June, 2003
Guo Xia *(Note 1&2)*	10 years	HK$0.32	7,200,000
Uri Law Tak Kau *(Note 1&2)*	10 years	HK$0.32	1,800,000
1 employee *(Note 1&2)*	10 years	HK$0.32	720,000
1 other participant *(Note 3)*	10 years	HK$0.40	1,800,000
			11,520,000

Note 1: Options granted to each of them contain a vesting schedule, pursuant to which may exercise up to 30 per cent. of the underlying shares after 31st December, 2003, (subject to note 2), up to another 30 per cent. of the underlying shares after 31st December, 2004 and the balance after 31st December, 2005.

Note 2: Each of the grantees has undertaken to the Stock Exchange that they will not exercise their options granted under the Pre-IPO share options scheme within the first 12 months from the listing date.

Note 3: Options granted to an adviser contain a vesting schedule, pursuant to which may exercise up to 30 per cent. of the underlying shares after 31st December, 2002, up to another 30 per cent. of the underlying shares after 31st December, 2003 and the balance after 31st December, 2004. The respective grantee has undertaken to the Stock Exchange that they will not exercise their options granted under the Pre-IPO share options scheme within the first 6 months from the listing date.

No value of option granted is presented for the six months ended 30th June, 2003 during which the Company has not yet been listed.

2. **Post-IPO Share Option Scheme**

Pursuant to the written resolutions by the shareholders of the Company on 23rd May, 2003, the Company adopted a share option scheme, the principal terms of which are set out in the paragraphs headed "Share Option Schemes" in Appendix IV to the Prospectus.

No option had been granted or agreed to be granted by the Company as at the date of this report.

COMPETING INTERESTS

As at 30th June, 2003, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTEREST

None of the Company's sponsor, DBS Asia Capital Limited (the "Sponsor"), its directors, employees or associates had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30th June, 2003.

Pursuant to the agreement entered into between the Company and the Sponsor, the Sponsor has received and will receive a fee for acting as the Company's retained sponsor for the remainder of the financial year ending 31st December, 2003 and the two years ending 31st December, 2005.

BOARD PRACTICE AND PROCEDURES

Since the listing of the Company, the Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2003.

AUDIT COMMITTEE

The Company established an audit committee on 6th August, 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Group's annual report and accounts, half-year report and quarterly reports and to provide advice and comments thereon to the board of directors. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, Mr. Wu Ming Yu and Mr. Paul Contomichalos with Mr. Wu Ming Yu as the chairman.

The unaudited condensed interim financial statements for the six months ended 30th June, 2003 have been reviewed by the audit committee.

By Order of the Board
Venturepharm Laboratories Limited
Guo Xia
Chairman

Beijing, the PRC, 8th August, 2003