



Venturepharm

Venturepharm Laboratories Limited

萬全科技藥業有限公司*

(incorporated in the Cayman Islands with limited Liability)

Third Quarterly Report 2003

For the nine months ended 30th September, 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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 a turnover of approximately RMB19,030,000 for the nine months ended 30th September 2003, about 23% increase from the corresponding period in 2002.
2. Accomplished a net profit of approximately RMB8,301,000 for the nine months ended 30th September 2003, about 19% increase from the corresponding period in 2002.
3. Basic earnings per share amounted to approximately RMB2.8 cents for the nine months ended 30th September 2003.

EXECUTIVE SUMMARY

In the reviewing period, the Company is undergoing major transformation in its business practice, explained further in the “Prospects” section below. The directors consider it to be the major milestone of development for the Group, on way to become an integrated pharmaceutical enterprise.

This shift in priority would lead to a short-term reduction in Technology Transfer activities and the revenue derived from such. Nonetheless, the directors consider such transformation is essential to reap the maximum benefit from our substantial product pipeline and the market awareness of our brand.

Without exception, the event of SARS in China and nearby regions earlier this year impacted on the Group business. The effects have been broad, encompassing product application to the SFDA, contract negotiation with prospective clients and project undertaking in various clinical institutions.

The directors consider it another factor leading to a reduction in operating revenue in the period under review.

RESULT

The board of the directors (the “Board”) of Venturepharm Laboratories Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30th September 2003, together with the comparative figures.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Unaudited		Unaudited	
		Three months ended		Nine months ended	
		30th September		30th September	
		2003	2002	2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	7,947	5,885	19,030	15,435
Cost of sales		(1,903)	(1,843)	(4,193)	(3,658)
Gross profit		6,044	4,042	14,837	11,777
Other revenue	2	250	112	379	179
General and administrative expenses		(1,849)	(1,864)	(5,741)	(4,664)
Profit before taxation		4,445	2,290	9,475	7,292
Taxation	3	(205)	(2)	(907)	(173)
Profit after taxation		4,240	2,288	8,568	7,119
Minority interests		(143)	69	(267)	(114)
Profit attributable to shareholders		4,097	2,357	8,301	7,005
Earnings per share	4				
– basic (RMB)		0.012	0.009	0.028	0.026
– diluted (RMB)		0.012	N/A	0.028	N/A

Notes:

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 Cayman Islands. On 31st March 2003, pursuant to a group reorganization (the “Reorganization”) in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company 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 of the Group as if the Group had been in existence since 1st January 2002, or their respective date of incorporation to 30th September 2003, whichever is the shorter period and as if the assets and liabilities were transferred to the Company as of the earliest period presented.

The Group’s financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

2. Turnover and revenue

The Group is principally engaged in the research, development and commercialization of drug products. Revenues recognised during the periods were as follows:

	Unaudited		Unaudited	
	Three months ended 30th September 2003 RMB'000	2002 RMB'000	Nine months ended 30th September 2003 RMB'000	2002 RMB'000
Turnover				
– Transfer of technology for new drug and new drug development	4,740	4,318	10,890	9,618
– Contracted pharmaceutical development services and clinical research services associated with technology transfer by the Group	2,167	1,438	6,772	5,632
– Contracted pharmaceutical development services and clinical research services not associated with technology transfer by the Group	1,040	129	1,368	185
	<u>7,947</u>	<u>5,885</u>	<u>19,030</u>	<u>15,435</u>
Other revenue				
– Interest income	155	2	245	13
– Other professional service	95	110	134	166
	<u>250</u>	<u>112</u>	<u>379</u>	<u>179</u>
Total revenue	<u>8,197</u>	<u>5,997</u>	<u>19,409</u>	<u>15,614</u>

3. Taxation

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30th September		30th September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Company and subsidiaries PRC income tax	<u>205</u>	<u>2</u>	<u>907</u>	<u>173</u>
	<u><u>205</u></u>	<u><u>2</u></u>	<u><u>907</u></u>	<u><u>173</u></u>

No Hong Kong profits tax has been provided for, as there was no assessable profit arising in or derived from Hong Kong for the nine months ended 30th September 2003 (2002: Nil). The Company's subsidiaries are subject to PRC income tax on their assessable profits.

The PRC income tax is computed according to the relevant laws and regulations in the PRC. Beijing Dezhong-Venture Pharmaceutical Technology Development Company Limited ("Dezhong VP") was subject to PRC enterprise income tax at a rate of 7.5% from 1st January 2002 to 31st December 2004 and 15% thereafter. Beijing Venture-Biopharm Services Company Limited was subject to PRC enterprise income tax at 7.5% from 1st January 2003 to 31st December 2005 and 15% thereafter.

4. Earnings per share

The calculation of basic earnings per share for the three months and nine months ended 30th September 2003 is based on the unaudited net profit of approximately RMB4,097,000 (2002: RMB2,357,000) and RMB8,301,000 (2002: RMB7,005,000), respectively and the weighted average number of approximately 351,195,652 and 297,362,637 ordinary shares in issue for the three months and nine months ended 30th September 2003, respectively (three months and nine months ended 30th September 2002: 270,000,000).

The calculation of diluted earning per share for the three and nine months ended 30th September 2003 was based on the weighted average number of shares outstanding plus the respective weighted average number of 3,008,000 and 1,079,795 ordinary shares deemed to be issued for no consideration if the option had been exercised on date of granting.

5. Dividends

The Board does not recommend the payment of dividend for the nine months ended 30th September 2003. (2002: Nil)

6. Reserves

	Share capital	Share issuance cost	Statutory reserve	Statutory enterprise expansion fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2002	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	–	–	–	–	8,301	8,301
Contribution from shareholders	39,114	–	–	–	–	39,114
Share issuance costs	–	(6,477)	–	–	–	(6,477)
At 30th September 2003	54,138	(8,895)	1,998	5,181	25,830	78,252

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has embarked on the most important period of growth since its inception. It is growth by transforming into a fully integrated pharmaceutical enterprise. The directors consider the shift in the management business priority vital to the long term growth of the Group.

Financial Review

During the period under review, the Group achieved a revenue turnover of RMB19 million, representing a 23%, increase as compared to the same period in 2002. Approximately 57.4% of the Group's turnover, amounting to approximate RMB10.9 million, was derived from technology transfer. Approximately 35.8% of the Group's turnover, amounting to approximate RMB6.8 million, was derived from providing pharmaceutical development services and clinical research services based on formulations developed by the Group. The remaining 6.8%, representing RMB1.4 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 77.9% in the reviewed period, while it was 78.3% in the same period of 2002. The directors of the Company considered the change is acceptable. Further discussion is given here in the Business Review section, reflecting the transformational growth of the Group.

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 expense of the Group amounted to approximately RMB5.7 million, representing 23% increase as compared with that for the same period in 2002. The change in general and administrative expenses was mainly attributable to the increase in staff cost (2003: approximately RMB1.9 million; 2002: approximately RMB0.7 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.

The net profit before tax was approximately RMB9.5 million, representing an increase of 30% as compared to that for the same period in 2002. A higher percentage of the Group's profit has become subject to the PRC income tax after expiration of tax exemption period of one of the subsidiaries in the PRC. Net profit attributable to shareholders reached approximately RMB8.3 million, representing an increase of 18.5%, as compared to the corresponding period in 2002.

The Group continues to be in strong financial position. The Group's net tangible assets as at 30th September 2003 was approximately RMB78 million (2002: RMB25 million).

There were no bank borrowings during the period. (2002: nil)

Business Review

Throughout the period under review, the Group is principally engaged in the research, development and commercialization of drug products.

Research and Development ("R&D")

The Group's R&D covers all major therapeutic areas such as heart diseases, cancer, AIDS and allergy.

Our product portfolio has now expanded into a total of 268 products with 46 new projects initiated since the start of year 2003. In the same said period, 47 new products were submitted to The State Food and Drug Administration ("SFDA") for Clinical Study Permits ("CSP"), 43 new CSPs were granted. Total clinical projects underway peaked at 92. 8 manufacturing applications were submitted to the SFDA and 6 new manufacturing permits were granted.

For the past nine months, 10 new patent applications were submitted to the Intellectual Property Office ("SIPO") making a total of 28 patents applications as at 30th September 2003 by the Group since the start of its operation.

Technology Transfer and Pharmaceutical Development Services

During the period under review, the Group has signed 15 Technology Transfer contracts for 18 products with a total value of approximately RMB22.9 million and 5 clinical development contracts of total value approximately RMB5.5 million.

The Group's CRO division has established cutting edge technology in conducting clinical trial on brand new drug entities including Traditional Chinese Medicine. The anticipated results may lead to brand new treatment for important unmet market.

Prospects

The Group has entered the exciting period of transforming into a fully integrated company with substantial commercialization program in place. The directors consider the main drivers to put this transformation into success are already accomplished, and these are:

- a successful IPO in Hong Kong to provide sufficient cash reserve for immediate implementation of various expansion plans, such as Manufacturing, Sales and Marketing capacity
- management energy and priority focusing on the long term growth of the Group business

- reducing Technology Transfer activities in order to preserve products for own commercialization
- forming strategic partnership and/or acquisition for major growth in its product portfolio

The Group's track record in new drugs R&D and customer base achievement have propelled it to a R&D specialist and integrated services leading position in the PRC market. With this, it has successfully embarked on various growth strategies such as product/technology expansion; integrated services development; complete vertical business operation; strategic acquisition and partnership; overseas markets development and brand recognition.

The directors consider most of the pharmaceutical companies in the PRC do not have full capability in conducting R&D on new products. Therefore, demand for pharmaceutical development services and clinical research services are expected to provide ample opportunity. The Company's Technical Marketing Team will continue to focus on exploring the market with a target to increase its customer base.

During the period under review, the Group has prepared and invested for the upcoming launch of high value products that retained for commercialisation under its own brand. RMB0.5 million worth of equipment and machinery were acquired and installed for partnering manufacturers. Its branded drug products are expected to begin launch by the end of 2003.

To complement its core competency in R & D, the Group is in the planning process of a GMP scale-up facility site. Such facility will extend the Group's capability in commercializing its own products.

The Group has also entered into various discussions with potential strategic partners to complement its future development. One or two co-operations in the form of joint ventures or others are expected to conclude within one year. No agreements had been reached as at 30th September 2003.

On brand recognition, senior company personnel have taken part in several major events aiming at expanding the Group's clientele base as well as for the corporate brand-building campaign.

The Group achieved a steady performance for the nine months ended 30th September 2003. 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; and (2) there is increased market recognition of the Group's brand "Venturepharm"; and (3) the growing demand for good quality drugs is substantial.

The success of the listing on GEM has also provided additional funds around HK\$28.5 million to support the Group's ongoing growth and development.

DISCLOSURE OF INTEREST

a. Interests of the Directors and Chief Executives

As at 30th September 2003, 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”)) (a) 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 taken 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	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 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	5.11
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% directly held by Mr. Guo Xia and 34.68% 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% held 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 10th July 2003	Date of Grant	Exercise Price
Guo Xia	7,200,000	25th June 2003	HK\$0.32
Uri Law Tak Kau	1,800,000	25th June 2003	HK\$0.32

Options granted to each of them contain a vesting schedule, pursuant to which may exercise up to 30% of the underlying shares after 31st December 2003, up to another 30% 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 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 interest of shareholding in joint venture
Guo Xia	Corporate	Interest of a controlled corporation (<i>Note 1</i>)	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% of its shareholding is beneficially held by Mr. Guo Xia. For the remaining 21% shareholding, 20% held by Dr. Uri Law Kau and 1% held by Dr. Song Xue-mei. All of them are executive directors of the company.

Save as disclosed above, as at 30th September 2003, 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 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.

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 30th September 2003, the persons or companies (not being a director or 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% 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 the Company Shares

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

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

Save as disclosed above, as at 30th September 2003, 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% 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 paragraph head “Share Option Scheme” in Appendix IV to the Prospectus. As at 25th June 2003, options comprising a total of 11,520,000 underlying shares were granted. As at 30th September 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 September 2003 are as follows:

Name of grantees	Period during which the options remain exercisable	Exercise price per shares	Number of underlying shares under the option
Guo Xia (<i>Note 1&2</i>)	10 years	HK\$0.32	7,200,000
Uri Law Tak Kau (<i>Note 1&2</i>)	10 years	HK\$0.32	1,800,000
1 ex-employee (<i>Note 1&2</i>)	10 years	HK\$0.32	720,000
1 other participant (<i>Note 3</i>)	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% of the underlying shares after 31st December 2003, (subject to Note 2), up to another 30% 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 advisor contain a vesting schedule, pursuant to which may exercise up to 30% of the underlying shares after 31st December 2002, up to another 30% of the underlying shares after 31st December 2003 and the balance after 31st December 2005. The respective grantee has undertaken to the Stock Exchange that he will not exercise his options granted under the Pre-IPO share options scheme within the first 6 months from the listing date.

2. 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 paragraph head “Share Option Scheme” 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 September 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 September 2003.

Pursuant to the agreement dated 25th June 2003 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 nine months ended 30th September 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 and 5.24 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 provide supervision over 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 audit committee has reviewed the unaudited third quarterly results for nine months ended 30th September 2003.

By Order of the Board

Guo Xia

Chairman

Beijing, the PRC, 11 November 2003