



Venturepharm Laboratories Limited
萬全科技藥業有限公司
(incorporated in the Cayman Islands with limited Liability)

1st Quarterly Report 2004

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast profitability. Furthermore, there may be risk arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.



Venturepharm

Venturepharm Laboratories Limited

萬全科技藥業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8225)

FINANCIAL HIGHLIGHTS

1. Achieved a turnover of approximately RMB3,677,000 for the three months ended 31 March 2004, representing an approximately 103% increase as compared with the turnover for the corresponding period in 2003.
2. Accomplished a net profit of approximately RMB734,000 for the three months ended 31 March 2004.
3. Basic earning per share amounted to approximately RMB0.2 cents for the three months ended 31 March 2004.
4. The Directors don't recommend payment of any interim dividend for the three months ended 31 March 2004.

UNAUDITED CONSOLIDATED 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 ended 31 March 2004, together with the comparative figures.

	Notes	Unaudited For the three months ended 31 March	
		2004 RMB'000	2003 RMB'000
Turnover	2	3,677	1,807
Cost of sales		<u>(1,962)</u>	<u>(474)</u>
Gross profit		1,714	1,333
Other operating income		858	53
Administrative expenses		<u>(1,803)</u>	<u>(1,241)</u>
Profit before taxation		771	145
Taxation	4	<u>(37)</u>	<u>(200)</u>
Profit (loss) after taxation		734	(55)
Minority interests		<u>–</u>	<u>3</u>
Profit (loss) attributable to shareholders		<u>734</u>	<u>(52)</u>
Earnings (loss) per share	5		
– basics (RMB cents)		0.20	(0.02)
– diluted (RMB cents)		0.20	N/A

NOTES:

1. Group reorganization and basis of presentation

The Company was incorporated in the Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands. Its shares have been listed on the GEM of the Stock Exchange since 10 July 2003 (the "Listing Date").

Pursuant to a group reorganization to rationalize the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 31 March 2003 (the "Group Reorganisation").

The combined results for the three months ended 31 March 2003 were prepared as if the current group structure had been in existence throughout the period.

The accompanying results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the terms of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and interpretations approved by the HKSA. The accounting policies adopted are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2003.

2. Turnover

The Group is principally engaged in the research, development and commercialization of drug products. Following the objective of increasing own product commercialization, there is only a modest growth in Technology Transfer revenue while there is a substantial increase in service income. Revenues recognized during the periods were as follows:

	Unaudited Three months ended 31 March	
	2004	2003
	RMB'000	RMB'000
Turnover		
– Transfer of technology for new drug and new drug development	350	–
– Contracted pharmaceutical development services and clinical research services associated with technology transfer by the Group	2,047	1,800
– Contracted pharmaceutical development services and clinical research services not associated with technology transfer by the Group	1,280	7
	<u>3,677</u>	<u>1,807</u>

Note: Following the objective of increasing own product commercialization, there is only a modest growth in Technology Transfer revenue while there is a substantial increase in service income.

3. Gross Profit Margin

	Unaudited Three months ended 31 March	
	2004	2003
Gross Profit Margin		
– Transfer of technology for new drug and new drug development	72%	N/A
– Contracted pharmaceutical development services and clinical research services associated with technology transfer by the Group	61%	74%
– Contracted pharmaceutical development services and clinical research services not associated with technology transfer by the Group	17%	15%
Overall Gross Profit Margin	<u>47%</u>	<u>74%</u>

Note: Overall gross profit margin for the period declined to 47% from 74% for the same period last year. That was due to: (1) retaining products for own commercialization, thus consigning the clinical cost to products already contracted out; (2) third party project services represented 35 per cent of total revenue, and this service sector yielded margin of only 17%, a level lower than those services derived from technology transfer.

4. Taxation

	Unaudited Three months ended 31 March	
	2004 RMB'000	2003 RMB'000
PRC income tax	<u>37</u>	<u>200</u>
	<u>37</u>	<u>200</u>

No Hong Kong Profits tax has been provided for, as the Group had no estimated assessable profits in Hong Kong for the three months ended 31 March 2004 (2003: 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 Co., Ltd, a subsidiary of the Company, was subject to PRC income tax at a rate of 7.5 per cent from 1 January 2002 to 31 December 2004 and 15 per cent thereafter. Beijing Venture-Biopharm Services Co., Ltd, another subsidiary of the Company, was subject to PRC income tax at 7.5 per cent from 1 January 2003 to 31 December 2005 and 15 per cent thereafter.

5. Earnings (loss) per share

The calculation of basic earnings per share for the three months ended 31 March 2004 is based on the unaudited net profit of approximately RMB734,000 (loss for 2003: RMB52,000), and the weighted average number of approximately 360,000,000 ordinary shares in issue during the period (2003: 270,000,000).

The calculation of the diluted earnings per share for the three months ended 31 March 2004 is based on the unaudited net profit of approximately RMB734,000 and the weighted average of 363,008,000 shares (after adjusting for the effect of the outstanding dilutive options of 3,008,000 shares under the share option schemes of the Company).

Diluted loss per share for the three months ended 31 March 2003 is not presented as the exercise of share options would result in a decrease in the loss per share.

6. Dividends

The Board does not recommend the payment of dividend for the three months ended 31 March 2004 (2003: Nil).

7. Dividends

	Share capital	Share premium	Special reserve	Capital reserve	Statutory reserve	Statutory enterprise expansion fund	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2003	8,402	(2,418)	–	6,622	1,998	5,181	17,529	37,314
Effect of Group Reorganisation	(6,039)	–	6,039	–	–	–	–	–
Capitalisation issue during the year	26,257	(20,529)	–	(5,728)	–	–	–	–
Issue of shares on placing	9,540	29,574	–	–	–	–	–	39,114
Expenses paid in connection with the issue of shares	–	(6,627)	–	–	–	–	–	(6,627)
Transfer	–	–	–	–	933	933	(1,866)	–
Profit for the year	–	–	–	–	–	–	20,360	20,360
At 31 December 2003	38,160	–	6,039	894	2,931	6,114	36,023	90,161
Profit for the year	–	–	–	–	–	–	734	734
At 31 March 2004	38,160	–	6,039	894	2,931	6,114	36,757	90,895

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the year, the Group is actively transforming its business platform to be one of a full scale, integrated pharmaceutical enterprise, by following the overall strategy to consolidate R&D business, speed up the construction of the production facility, and build up marketing net work in preparation of multiple product launch this year.

From the seasonal trend in China market, first half of the year tends to be slow for companies in signing up contracts to acquire new products. The Group is moving towards a Multi-Revenue Model and this can be reflected from the substantial increase in third party service revenue.

During the period under review, the Group achieved a turnover of approximately RMB3,677,000 (2003: RMB1,807,000), which represented a substantial increase of 103 per cent as compared with that of the corresponding period in 2003. Approximately 65 per cent of total revenue was derived from technology transfer and services associated with technology transfer by the Group, and approximately 35 per cent was generated from contracted pharmaceutical development services and clinical research services not associated with technology transfer by the Group.

Administrative expenses increased by 45 per cent to approximately RMB1,803,000. Increasing marketing capacity has been the main contributing factor for increase in Administrative Expenses. It was in preparation for the Group's own product commercialization.

For the period ended 31 March 2004, the Group recorded a profit attributable to shareholders of approximately RMB734,000, while the Group recorded a loss of approximately RMB52,000 for the same period in 2003.

Research and Development

The Group's portfolio covers all major and high growth therapeutic areas such as diabetes, heart diseases, cancer, AIDS and allergy. The Group initiated 17 new projects in the first quarter of year 2004 and our product pipeline has now expanded into a total of 310 products. In the same said period, 6 new products were submitted to the State Food and Drug Administration ("SFDA") for Clinical Study Permits ("CSP's") while 16 new CSP's were granted to the Group. The total number of CSP's accumulated by the Group climbed to 125. In the same said period, 6 Manufacturing Permit applications were submitted to the SFDA and 4 new Manufacturing Permits were granted.

Sales and Marketing

During the current period, the Group successfully signed 1 technology transfer contract with value of approximately RMB0.7 million. Furthermore, the Group is reaching final negotiation stage with over 5 customers for 10 drug products with a total value of more than RMB10 million. The Group entered into 3 clinical research contracts amounting to total value of approximately RMB3.8 million.

For commercial launching of products under its own brand, the Group has invested substantially to increase its product marketing capacity. So far the Group retained 5 drug products for which manufacturing permits have been granted by SFDA, for the Group's own commercialization. For the introduction of those products, the Group has entered into several distribution agreements with independent wholesalers.

A number of contracts involving foreign pharmaceutical companies were also signed in the period, pertaining to product registration, product and technology development services.

Prospects

The Group has progressed to expand its capacities in manufacturing, marketing and sales. In the reporting period, it has entered into two cooperation agreements to build up its own GMP integrated manufacture facilities, which will complement the Group's capacity in R&D. Together with two joint ventures located in Shanxi and Zhejiang Provinces as manufacturing and trading platforms for the Group's Active Pharmaceutical Ingredients ("API") products, the Group has established its base for expansion into business fields of manufacturing and sales.

The Group will continue to capitalize on various resources to maintain its leading position in new drugs R&D and pharmaceutical development services markets in China. The Group's Technical Marketing Team utilizes various channels such as attendance of Pharm-Exhibition to explore potential customers with demand for pharmaceutical development services and clinical research services.

The Group has been establishing its marketing team. With the target introduction of 10 products to the market in the remaining period of 2004, the Group expects to gain substantial revenue from the launch.

Various growth strategies are being implemented such as product/technology expansion; integrated services development; complete vertical business operation; strategic acquisition and partnership; overseas markets development and brand recognition. Going forward, the Group will continue to negotiate with potential strategic partners to complement its future development.

The management expects that the above mentioned measures enable the Group to achieve its long term objective of growing as a fully integrated pharmaceutical company in order to add more contributions to shareholder's value.

DIRECTORS' INTEREST IN SECURITIES

As at 31 March 2004, the interests and short positions of the directors, chief executives of the Group and their associates 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 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 rules 5.41 to 5.49 of the GEM Listing Rules were as follows:

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 settled physically equity derivatives (Note 3)	Total number of shares	Approximate percentage of interest
William Xia GUO	Personal	Beneficial owner	9,110,377	7,200,000	16,310,377	4.53
William Xia GUO	Corporate	Interest of a controlled Corporation (Note 1)	149,432,583	–	149,432,583	41.51
William Xia GUO	Corporate	Interest of controlled corporation (Note 2)	15,966,073	–	15,966,073	4.44
Uri Tak Kau LAW	Personal	Beneficial owner	39,081	1,800,000	1,839,081	0.51
Uri Tak Kau LAW	Corporate	Interest of a controlled Corporation (Note 1)	149,432,583	–	149,432,583	41.51
Uri Tak Kau LAW	Corporate	Interest of controlled corporation (Note 2)	15,966,073	–	15,966,073	4.44
Marie Xue mei SONG	Corporate	Interest of a controlled Corporation (Note 1)	149,432,583	–	149,432,583	41.51
Marie Xue mei SONG	Corporate	Interest of controlled corporation (Note 2)	15,966,073	–	15,966,073	4.44
David GAO Xuesong	Corporate	Interest of a controlled Corporation (Note 1)	149,432,583	–	149,432,583	41.51
David GAO Xuesong	Corporate	Interest of controlled corporation (Note 2)	15,966,073	–	15,966,073	4.44
Derek LEE	Corporate	Interest of a controlled Corporation (Note 1)	149,432,583	–	149,432,583	41.51
Derek LEE	Corporate	Interest of controlled corporation (Note 2)	15,966,073	–	15,966,073	4.44
Philip Pak Yiu YUEN	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, 10.26 per cent directly held by Dr. Uri Law Tak Kau, 0.02 per cent directly held by Dr. Song Xue-mei, 0.55 per cent directly held by Dr. David Gao Xuesong, 3.41 per cent directly held by Dr. Lee Derek 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 10th July 2003	Date of Grant	Exercise Price
William Xia GUO	7,200,000	20 June 2003	HK\$0.32
Uri Tak Kau LAW	1,800,000	20 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 31 December 2003, up to another 30 per cent of the underlying shares after 31 December 2004 and the balance after 31 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 option scheme within the first 12 months from the listing date.

- (2) A subsidiary of the Company – Beijing Dezhong-Venture Pharmaceutical Technology Development Company Limited

Name	Type of Interest	Capacity	Capital contribution on a Sino-foreign co-operative joint venture	Approximate percentage of interest of shareholding in joint venture
William Xia GUO	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. William Xia GUO. For the remaining 21 per cent shareholding, 20 per cent held by Dr. Uri Tak Kau LAW and 1 per cent held by Dr. Maria Xue-mei SONG. All are executive directors of the company.

Save as disclosed above, as at 31 March 2004, none of the directors and chief executive had any interests or short positions 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 the rules 5.41 to 5.49 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as it is known to any directors, chief executives of the Company, as at 31 March 2004, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed pursuant to Division 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein were as follows:

Long positions in shares and underlying 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
William Xia GUO (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 Agent Limited, his wholly and beneficially owned company incorporated in the 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. William Xia GUO (including 7,200,000 shares underlying the options granted to him under the Pre-IPO Share Option Scheme).

Save as disclosed above, as at 31 March 2004, there was no other persons who recorded in the register of the Company as having 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 which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEMES

1. Pre-IPO Share Option Scheme

Pursuant to the written resolution passed by the shareholder on 31 March 2003, the Company adopted a share option scheme (the “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 20 June 2003, options comprising a total of 11,520,000 underlying shares were granted. As at 31 March 2004, 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 31 March 2004 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 20.6.2003 and 31.3.2004
William Xia GUO (Note 1&2)	10 years	HK\$0.32	7,200,000
Uri Tak Kau LAW (Note 1&2)	10 years	HK\$0.32	1,800,000
1 other participant (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 31 December 2003, (subject to Note 2), up to another 30 per cent of the underlying shares after 31 December 2004 and the balance after 31 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 per cent of the underlying shares after 31 December 2002, up to another 30 per cent of the underlying shares after 31 December 2003 and the balance after 31 December 2004. 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 23 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 since its adoption.

COMPETING INTERESTS

As at 31 March 2004, none of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTEREST

As at 31 March 2004, none of the Company's sponsor, JS Cresvale Capital limited (the "Sponsor"), its directors, employees or associates (as defined in the GEM Listing Rules) had any interests in the securities of the Company.

Pursuant to the agreement dated 12 December 2003, entered into between the Company and the Sponsor, the Sponsor has received and will receive a fee for acting as the Company's sponsor for the period commencing from (and including) 11 January 2004 and ending on (and including) 31 December 2005 or the date the Agreement is terminated.

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

The Company or any of its subsidiaries didn't purchase, sell or redeem any of the Company's listed shares during the three months ended 31 March 2004.

AUDIT COMMITTEE

The Company has established an audit committee in July 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The audit committee has two members comprising the two Independent Non-Executive Directors, Mr. Wu Ming Yu and Mr. Paul Contomichalos. Mr. Wu Ming Yu is the chairman of the audit committee.

The audit committee has reviewed the unaudited first quarterly results for three months ended 31 March 2004.

By Order of the Board
Guo Xia
Chairman

Beijing, the PRC, 12 May 2004