



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

3rd Quarterly Report 2004

* for identification only

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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)

The Directors are pleased to announce the unaudited third quarterly results of the Company and its subsidiaries (the “Group”) for the three and nine months ended 30 September 2004 respectively, together with the comparative figures.

FINANCIAL HIGHLIGHTS

1. 25 technology transfer and services contracts of approximately RMB23,290,000 signed in the nine-month period, and approximately RMB104,726,000 worth of accumulated unexecuted contracts were in progress as at 30 September 2004.
2. Two prescription drug products launched under the Group’s “Venturepharm” brand name, other three drugs under pre-launching stage.
3. Revenue of approximately RMB19,042,000, slightly increased as compared with the same nine-month period in 2003.
4. Net profit of approximately RMB5,825,000 for the nine-month period, declined 30 per cent compared with the same period last year. Basic earning per share amounted to RMB1.62cents for the nine-month period.
5. The Directors don’t recommend payment of any interim dividend for the nine months ended 30 September 2004.

* *for identification only*

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue of the Group for the nine months ended 30 September 2004 was approximately RMB19,042,000, slightly higher than the same period last year. The Group recorded an approximately RMB3,318,000 and RMB2,617,000 increase in revenue from pharmaceutical development services associated with technology transfer by the Group and contract pharmaceutical services outsourced by customers respectively as compared with the same period last year. Due to the Group's transforming strategies that are further discussed under the section of Business Review, the Group enjoyed a 49 per cent increase in revenue from pharmaceutical services associated with projects initiated by the Group, and 191 per cent increase from contract pharmaceutical development and clinical service. Also as the result of the transformation and tough business environment, the Group experienced a reduction in revenue from technology transfer to RMB3,468,000 in the nine months ended 30 September 2004 from RMB 10,890,000 in the same period 2003. Of the total revenue amount, approximately RMB3,468,000 or 18 per cent, down from 57 per cent in 2003, was derived from technology transfer; RMB10,090,000 or 53 per cent, up from 36 per cent in 2003, was derived from pharmaceutical services associated with projects initiated by the Group; RMB3,985,000 or 21 per cent, up from 7 per cent in 2003, was generated from contract pharmaceutical development and clinical services; and RMB1,499,000 or 8 per cent, up from nil, was derived from sales of drug products and import registration services.

As compared with the same period of 2003, the gross profit margin for pharmaceutical development and services associated with projects initiated by the Group declined by 20 per cent as a result of increase in clinical study cost. Together with the changes in sources of revenue described in the preceding paragraph, overall gross profit margin fell to about 54 per cent from 77 per cent in 2003.

Total administrative expenses for the three and nine months ended 30 September 2004 amounted to approximately RMB RMB2,165,000 and RMB6,310,000 respectively, up 17 per cent and 13 per cent respectively as compared with the same period in 2003. This increase was attributable to increase in staff cost as a result of increasing staff number and increase in marketing expenses as a result of the Group's launch of "Venturepharm" products.

Net profit attributable to shareholders was approximately RMB5,825,000 for the nine months ended 30 September 2004, 30 per cent lower as compared with the corresponding period last year. This reduction could be deemed as the cost of business transforming in short-term.

BUSINESS REVIEW

The decline in revenue from technology transfer is mainly attributable to the following reasons: (1) the Group's strategy to retain drug projects under development for own commercialization to seek long term business benefit. During the nine months 14 drug projects were transferred at an average price of RMB1,054,000, while in last period 18 drug projects with an average price of RMB1,273,000; (2) as the result of changes made in pricing policy in 2004, the value of technology transfer only represented 24 per cent of the total contract value for projects transferred and initiated by the Group in 2004, which means more revenue is deferred. However, the proportion of technology transfer was 38 per cent in 2003; (3) the unfavorable market condition in the PRC pharmaceutical industry as a result of austerity measures imposed by the PRC government.

It has been the Group's growth strategy to retain drug projects with the best commercialization potential for the development of products to be marketed under the Venturepharm brand name and to extend our value chain from research to sales and marketing. Specifically, during the nine months ended 30 September 2004, the Group has delayed the transfer of R&D projects on a selective basis. However, as the profit margin on technology transfer has been much higher than revenue generated from other categories, namely, contract research service, doing so has caused negative impacts on the short-term profit margin as well as the overall financial performance of the Group.

Although the Group experienced a decline in revenue from technology transfer, the Group recorded a 49 percent and 191 percent increase from pharmaceutical development and service associated with projects initiated by the Group and contract clinical service respectively. The Group is moving beyond research to development, distribution and marketing of prescription drug products as well as API under Venturepharm brand name.

Research and Development

The Group's portfolio covers all major and high growth therapeutic areas such as diabetes, heart diseases, cancer, AIDS and allergy. So far there are 4 Category-A projects under development.

The Group offers full range of clinical development services, ranging from phase I to IV clinical studies, covering virtually all dosage forms. In August, the Group won a clinical study contract for a Category-A biological drug from a domestic company.

Sales and Marketing

During the nine months ended 30 September 2004, the Group successfully signed 14 technology transfer contracts for 14 drug products with total value of approximately RMB14,750,000. The Group entered into 11 clinical research contracts amounting to total value of approximately RMB8,540,000, which represented a 153 percent increase in term of contract value. The significant increase in clinical research services was the result of the Group's strategy to expand CRO services in the PRC market.

In the third quarter the Group has invested great in preparation of launching another three drug products. As at 30 September 2004, there were two prescription drug products already launched under "Venturepharm" brand name in the PRC markets.

In the reporting period several service agreements were signed with foreign companies pertaining to drug and medical device registration services. At the same time the Group also expanded the sales of chemical intermediates both in domestic and overseas markets.

Patents

The Group always places great emphasis on the protection of intellectual property rights. The Group had submitted 37 patent applications since its inception to 30 September 2004.

PROSPECTS

The Directors believe that the ability to maintain a leading position in new drugs R&D and pharmaceutical development services in China will be critical to the Group's long term success. The Group will continually capitalize on various resources to provide our customers with full, efficient and high quality services.

As the result of adopting an expansion strategy in the reporting period, the Group's CRO services has been actively broadening its client bases and improving its service level, and hence the Group will continue to enjoy a substantial growth in CRO services.

With the launching of more prescription products in several therapeutic fields under the Group's brand will broaden room of profit increasing potential. In addition, the API production facilities based in Shanxi have begun to operate in the third quarter, which demonstrates promising prospect in API production and trading and enhances the Group's capacity in commercializing its own products. All those are promising drivers for the Group to achieve increase in both revenue and profits in coming years.

The Group will continue to strengthen competitive edge and add value to shareholders.

CONSOLIDATED RESULTS

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	3	6,475	7,947	19,042	19,030
Cost of sales		<u>(3,457)</u>	<u>(2,072)</u>	<u>(8,809)</u>	<u>(4,361)</u>
Gross profit		3,018	5,875	10,233	14,669
Other operating income		617	250	2,284	379
Administrative expenses		<u>(2,165)</u>	<u>(1,681)</u>	<u>(6,310)</u>	<u>(5,573)</u>
Profit before taxation		1,470	4,444	6,207	9,475
Taxation	4	<u>(51)</u>	<u>(205)</u>	<u>(427)</u>	<u>(907)</u>
Profit after taxation before minority interest		1,419	4,239	5,780	8,568
Minority interests		<u>28</u>	<u>(142)</u>	<u>45</u>	<u>(267)</u>
Profit attributable to shareholders		<u>1,447</u>	<u>4,097</u>	<u>5,825</u>	<u>8,301</u>
Earnings per share (RMB)	6				
– basic		0.004	0.0117	0.0162	0.0279
– diluted		0.004	0.0116	0.0160	0.0277

NOTES TO THE FINANCIAL STATEMENTS

1. Group reorganization

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").

2 Accounting policies and basis of preparation

The unaudited condensed finance statements have been prepared in accordance with the Statements of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. 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.

The accounts have been prepared on a consolidated basis and include the financial statements of the Company and its subsidiaries. All inter-company transactions, balances and unrealized gains on transactions eliminated. The combined results for the nine months ended 30 September 2003 were prepared as if the current group structure had been in existence throughout the period.

3 Turnover and revenue

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

	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover				
– Transfer of technology for new drug and new drug development	400	4,740	3,468	10,890
– Contracted pharmaceutical development and clinical research services associated with technology transfer	3,892	2,167	10,090	6,772
– Contracted pharmaceutical development and clinical research services outsourced by customers	1,515	1,040	3,985	1,368
– Import registration services	306	–	686	–
– Net revenue from sales of drug products	362	–	813	–
	<u>6,475</u>	<u>7,947</u>	<u>19,042</u>	<u>19,030</u>

4 Taxation

	Unaudited three months ended 30 September 2004		Unaudited nine months ended 30 September 2004	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Company and subsidiaries PRC income tax	51	205	427	907
	<u>51</u>	<u>205</u>	<u>427</u>	<u>907</u>

No Hong Kong Profits Tax has been provided for, as the Group had no estimated assessable profits in Hong Kong for the nine months ended 30 September 2004 (2003: nil). The Company's subsidiaries are subject to PRC income tax on their assessable profits.

5 Dividends

The board does not recommend the payment of an interim dividend for the nine months ended 30 September 2004. (2003: Nil)

6 Earnings per share

The calculation of basic earnings per share for the three and nine months ended 30 September 2004 is based on the unaudited net profit of approximately RMB1,447,000 and RMB5,825,000 respectively (2003: approximately RMB4,097,000 and RMB8,301,000 respectively), and the weighted average number of approximately 360,000,000 ordinary shares in issue during the period (2003: approximately 351,196,000 and 297,362,000 ordinary shares for three and nine months ended 30 September 2003, respectively).

The calculation of the diluted earnings per share for the three months and nine months ended 30 September 2004 is based on the unaudited net profit of approximately RMB1,447,000 and RMB5,825,000 respectively (2003: approximately RMB4,097,000 and RMB8,301,000 respectively), and the weighted average of approximately 363,008,000 shares (2003: approximately 353,909,000 and 299,236,000 shares for three and nine months ended 30 September 2003, respectively) (after adjusting for the effect of the outstanding dilutive options under the share option schemes of the Company).

7 Shareholders' fund

	Share capital	Share premium	Special reserve	Capital reserve	Statutory reserve	Statutory reserve	Accumulated profit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	38,160	-	6,039	894	2,931	6,114	36,023	90,161
Dividend	-	-	-	-	-	-	(1,908)	(1,908)
Contribution from minority shareholder	-	-	-	7	-	-	-	7
Profit for the period	-	-	-	-	-	-	5,825	5,825
At 30 September 2004	38,160	-	6,039	901	2,931	6,114	39,940	94,085

DIRECTORS' INTEREST IN SECURITIES

As at 30 September 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 physically settled 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
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
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, 0.02 per cent directly held by Dr. Song Xue-mei, 0.55 per cent directly held by Dr. David Gao Xuesong, 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 20 June 2003 and 30 September 2004	Date of Grant	Exercise Price
William Xia GUO	7,200,000	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 and 1 per cent held by Dr. Maria Xue-mei SONG.

Save as disclosed above, as at 30 September 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 30 September 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 30 September 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 recompense 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 30 September 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 that had been granted under the Pre-IPO Share Option Scheme as at 30 September 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 at 20.6.2003 and 30.9.2004
William Xia GUO (Note 1&2)	10 years	HK\$0.32	7,200,000
2 other participants (Note 1&2)	10 years	HK\$0.32	2,520,000
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 30 September 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 that competes or may compete with the business of the Group.

SPONSOR'S INTEREST

As at 30 September 2004, neither the sponsor of the Company, China Everbright Capital Limited ("China Everbright"), nor its directors, employees or any of their associates (as defined in the GEM Listing Rules), had any interest in any securities of the Company.

Pursuant to the agreement dated 27 May 2004, entered into between the Company and the Sponsor, China Everbright received and will receive a fee for acting as the Company's sponsor for the period commencing from (and including) 27 May 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 nine months ended 30 September 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 three members comprising the three Independent Non-Executive Directors, Mr. Wu Ming Yu and Mr. Paul Contomichalos, and Mr. Wang Hong Bo. Mr. Wu Ming Yu is the chairman of the audit committee.

The audit committee has reviewed the unaudited third quarterly results for the nine months ended 30 September 2004.

By Order of the Board
Guo Xia
Chairman

Beijing, the PRC, 11 November 2004