



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

1st Quarterly Report 2005

* for identification only

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2005

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This report, for which the directors (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 (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, 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; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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 first quarterly results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2005, together with the comparative figures.

FINANCIAL HIGHLIGHTS

1. Achieved a turnover of approximately RMB7,488,348 for the three months ended 31 March 2005, representing an approximately 104 per cent increase as compared with the turnover for the corresponding period in 2004.
2. Accomplished a net profit of approximately RMB700,603 for the three months ended 31 March 2005.
3. Basic earning per share amounted to approximately RMB0.19 cents for the three months ended 31 March 2005.
4. The Directors don't recommend payment of any interim dividend for the three months ended 31 March 2005.

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Since the Group has started the business transformation in 2004, we got an obvious growth in the first quarter of 2005. In this period, while we maintaining the profit scalability of technology transfer, we still gain a growth in sales and marketing, pharmaceutical development service (PDS), clinical research service (CRS) and active pharmaceutical ingredient (API).

During the three months ended 31 March 2005, the Group achieved a turnover of approximately RMB7,488,348, which represented a substantial increase of 104 per cent as compared with that of the corresponding period in 2004. The Group recorded an approximately RMB1,710,000 or 389 per cent increase in revenue from technology transfer; RMB3,418,587 or 67 per cent increase in revenue from pharmaceutical development services associated with technology transfer by the Group; RMB1,881,866 or 47 per cent increase in revenue from clinical research service as compared with the same period in 2004. In this period, the Group has signed 17 new contracts with total value of approximately 13,399,400 as compared with 8 contracts with total value of approximately 11,080,000 in the same period in 2004.

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 three months ended 31 March 2005, the Group has obtained RMB264,482 from sales and marketing up from nil as compared with the same period in 2004.

API is another growth engine of the company. During the period, we have contracted with 19 clients including 3 overseas clients to distribute the API under Venturepharm brand name and achieved the revenue of approximately RMB43,468 up from nil as compared with the same period in 2004.

As compared with the same period of 2004, the overall gross profit margin slightly fell to about 46.5 per cent from 46.6 per cent in 2004.

Total administrative expenses for the three months ended 31 March 2005 amounted to approximately RMB2,692,120, up 49 per cent as compared with the same period in 2004. 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 RMB700,603 for the three months ended 31 March 2005, 4.6 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.

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 has maintained our strength in research and development. During the period, the Group has 69 products under development and has 21 new products were submitted to The State Food and Drug Administration ("SFDA") for Clinical Study Permits ("CSP's") while there are 4 new products were submitted in the same period last year.

Sales and Marketing

During the three months ended 31 March 2005, the Group successfully signed 5 technology transfer and associated development services contracts with total value of approximately RMB2,950,000 and entered into 12 clinical research contracts amounting to total value of approximately RMB10,449,400, which represented 321 per cent and 0.7 per cent increase in term of contract value.

In the first quarter the Group has invested great effort in expending sales network in mainland China and preparation for launching several new drug products under "Venturepharm" brand name in the PRC markets in the near future.

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 active pharmaceutical ingredient both in domestic and overseas markets.

Patents

The Group always places great emphasis on the protection of intellectual property rights. The Group had submitted 52 patent applications since its inception to 31 March 2005.

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 CRS has been actively broadening its client bases and improving its service level, and hence the Group will continue to enjoy a substantial growth in CRS.

With the effort of broadening sales network and launching of more new products in several therapeutic fields under the Group's brand will broaden room of profit increasing potential. In addition, the API will put a great effort on exploring overseas market that will give a great growth potential to API business. 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

		Unaudited	
		For the three months	
		ended 31 March	
		2005	2004
	Notes	RMB'000	RMB'000
Turnover	3	7,488	3,677
Cost of sales		(4,006)	(1,962)
Gross profit		3,482	1,714
Other operating income		25	858
Administrative expenses		(2,692)	(1,803)
Profit before taxation		815	771
Taxation	4	(135)	(37)
Profit (loss) after taxation		680	734
Minority interests		21	–
Profit (loss) attributable to shareholders		701	734
Earnings (loss) per share	6		
– basics (RMB cents)		0.19	0.20
– diluted (RMB cents)		0.19	0.20

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 2004.

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.

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	
	31 March	
	2005	2004
	RMB’000	RMB’000
Turnover		
– Transfer of technology for new drug and new drug development	1,710	350
– Contracted pharmaceutical development and clinical research services associated with technology transfer	3,419	2,047
– Contracted pharmaceutical development and clinical research services outsourced by customers	1,882	1,280
– Import registration services	170	–
– Royalty income	264	–
– Active pharmaceutical ingredient	43	–
	<u>7,488</u>	<u>3,677</u>

4. Taxation

	Unaudited Three months ended 31 March	
	2005	2004
	RMB'000	RMB'000
PRC income tax	135	37
	<u>135</u>	<u>37</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 2005 (2004: 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 three months ended 31 March 2005. (2004: Nil).

6. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2005 is based on the unaudited net profit of approximately RMB700,603, and the weighted average number of approximately 360,000,000 ordinary shares in issue during the period.

The calculation of the diluted earnings per share for the three months ended 31 March 2005 is based on the unaudited net profit of approximately RMB700,603 and the weighted average of 363,635,815 shares (after adjusting for the effect of the outstanding dilutive options of 3,635,815 shares under the share option schemes of the Company).

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, and the weighted average number of approximately 360,000,000 ordinary shares in issue during the period.

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).

7. Shareholders' fund

	Share capital	Share premium	Special reserve	Capital reserve	Statutory reserve	Statutory enterprise expansion reserve	Accumulated profit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	38,160	-	6,039	903	3,334	6,517	43,992	98,945
Dividend	-	-	-	-	-	-	-	-
Contribution from minority shareholder	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	701	701
At 31 March 2005	38,160	-	6,039	903	3,334	6,517	44,693	99,646

DIRECTORS' INTEREST IN SECURITIES

As at 31 March 2005, 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 a controlled corporation (Note 2)	15,966,073	–	15,966,073	4.44

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 20 June 2003 and 31 March 2005			Date of Grant	Exercise Price
	William Xia GUO	7,200,000			20 June 2003

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 99 per cent of its shareholding is beneficially held by Mr. William Xia GUO and 1 per cent held by Dr. Maria Xuemei SONG.

Save as disclosed above, as at 31 March 2005, 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 2005, 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
Bright Excel Assets Limited (Note 2)	Beneficial owner	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 2005, 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 recognize 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 2005, 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 31 March 2005 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 share under the option at 20.6.2003 and 31.3.2005
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.

As at 2 March 2005, options comprising a total of 4,042,000 underlying shares were granted. As at 31 March 2005, the options outstanding are 4,042,000 and no options granted pursuant to the Share Option Scheme had been exercised, cancelled or lapsed. Particulars of the outstanding options which have been granted under the Share Option Scheme as at 31 March 2005 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 31.3.2005
William Xia GUO	10 years	HK\$0.52	360,000
Other directors	10 years	HK\$0.52	1,152,000
Other participant	10 years	HK\$0.52	2,530,000
			4,042,000

COMPETING INTERESTS

As at 31 March 2005, 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 31 March 2005, 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 three months ended 31 March 2005.

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 first quarterly results for the three months ended 31 March 2005.

By Order of the Board

Guo Xia

Chairman

Beijing, the PRC, 11 May 2005