



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

(incorporated in the Cayman Islands with limited Liability)

(Stock Code: 8225)

1st Quarterly Report 2006

* for identification only

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2006

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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 (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

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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 2006, together with the comparative figures.

FINANCIAL HIGHLIGHTS

1. The Group recorded a turnover of approximately RMB8,074,000 for the three months ended 31 March 2006, representing an approximately 8% increase as compared with the turnover for the corresponding period of 2005.
2. The Group accomplished a net profit of approximately RMB827,000 for the three months ended 31 March 2006, representing an increase of approximately 18% compared with the net profit recorded in the corresponding period of 2005.
3. Basic earning per share amounted to approximately RMB0.23 cents for the three months ended 31 March 2006.
4. The Directors do not recommend payment of any interim dividend for the three months ended 31 March 2006.

* *for identification only*

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		For the three months	
		ended 31 March	
		2006	2005
	Notes	RMB'000	RMB'000
Turnover	2	8,074	7,488
Cost of sales		(4,536)	(4,006)
		<u> </u>	<u> </u>
Gross profit		3,538	3,482
Other operating income		20	25
Administrative expenses		(2,656)	(2,692)
		<u> </u>	<u> </u>
Profit before taxation		902	815
Taxation	3	(106)	(135)
		<u> </u>	<u> </u>
Profit after taxation		796	680
		<u> </u>	<u> </u>
Attributable to:			
Minority interests		(31)	(21)
Profit attributable to shareholders		827	701
		<u> </u>	<u> </u>
		796	680
		<u> </u>	<u> </u>
Earnings per share attributable to shareholders	5		
– basic (RMB cents)		0.23	0.19
– diluted (RMB cents)		0.23	0.19

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs), and interpretations (Ints) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on 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 2005.

The accounts have been prepared on a consolidated basis and include the financial statements of the Company and its subsidiaries made up to 31 March 2006. The measurement basis used in the preparation of the financial statements is historical cost as modified by the revaluation of certain financial assets and liabilities at fair value.

2. Turnover and segment information

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	
	2006	2005
	RMB'000	RMB'000
Turnover		
– Transfer of technology for new drug and new drug development	2,357	1,710
– Contracted pharmaceutical development and clinical research services associated with technology transfer	1,217	3,419
– Contracted pharmaceutical development and clinical research services outsourced by customers	3,990	1,882
– Import registration services	–	170
– Royalty income	254	264
– Active pharmaceutical ingredient	256	43
	<u>8,074</u>	<u>7,488</u>

Turnover and contribution to profit from operations by segments have not been presented as over 90% of the Group's turnover was derived from the pharmaceutical research and development registration, application and testing in the People's Republic of China (the "PRC"). No geographical segment analysis is presented as all assets and operations of the Group for the periods concerned are located in the PRC.

3. Taxation

	Unaudited Three months ended 31 March	
	2006	2005
	RMB'000	RMB'000
PRC income tax	<u>106</u>	<u>135</u>
	<u>106</u>	<u>135</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 2006 (2005: Nil). The Company's subsidiaries are subject to PRC income tax on their assessable profits.

4. Dividends

The board does not recommend the payment of an interim dividend for the three months ended 31 March 2006. (2005: Nil).

5. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the unaudited net profit of approximately RMB827,000, 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 2006 is based on the unaudited net profit of approximately RMB827,000 and the weighted average of 363,540,000 shares (after adjusting for the effect of the outstanding dilutive options of 3,540,000 shares under the share option schemes of the Company).

The calculation of basic earnings per share for the three months ended 31 March 2005 is based on the unaudited net profit of approximately RMB701,000, 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 2005 is based on the unaudited net profit of approximately RMB701,000 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).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the three months ended 31 March 2006, the Group recorded to total turnover of approximately RMB8,074,000, which represented an increase of approximately 8% as compared with that of the corresponding period of 2005. The total turnover comprises of technology transfer and pharmaceutical development service (PDS) of RMB3,574,000, clinical research service (CRS) of RMB3,990,000 and other service income of RMB510,000. The increase in turnover was mainly attributed to the increase in CRS. Within this period, the Group signed 25 new contracts (2005: 17 new contracts) with total value of approximately RMB16,118,000 as compared to RMB13,399,000 in the corresponding period of last year.

The Group maintained as the leader of the new drug's research and development in the PRC. At the same time, the Group shall explore the business model development of totality of services with regard to drug projects. It has been the growth strategy to expand the networking of sales and marketing throughout the PRC. During the three months ended 31 March 2006, the Group recorded sales income of approximately RMB254,000.

Active pharmaceutical ingredient (API) is another source of growth in turnover. During the period, the Group contracted with 19 clients including 4 overseas clients to distribute the API under Venturepharm brand name and recorded a turnover of approximately RMB256,000 as compared to RMB43,000 in the corresponding period of last year.

The overall gross profit margin slightly fell from 46.5% in 2005 to 43.8% during the three months ended 31 March 2006. However, the net profit attributable to shareholders was approximately RMB827,000, which is an increase of approximately 18% as compared to the corresponding period of 2005.

Research and Development

The Group's portfolio covers all major and high growth therapeutic areas such as diabetes, heart diseases, cancer, skin diseases, AIDS and allergy. The Group maintained its advance strength in the research and development of new drugs.

Since the beginning of 2006, the Group has started 23 new projects and there are now 121 products under development. During the period, 6 new products were submitted to The State Food and Drug Administration (“SFDA”) for Clinical Study Permits (“CSP”). Among those already submitted, SFDA issued one new CSP and eight new production permits within the three months ended 31 March 2006 such that the accumulated number of CSP and production permit issued by SFDA to the Group arrived at 228 and 80 respectively.

Sales and Marketing

During the three months ended 31 March 2006, the Group successfully signed 16 technology transfer and associated development services contracts with total value of approximately RMB6,980,000, which represented an increase of 137% as compared to those recorded in the corresponding period of last year.

The Group also successfully signed 9 clinical research contracts with its clients with total value of approximately RMB9,138,000, which represented an increase of 13% as compared to those recorded in the corresponding period of last year.

Within the first quarter of 2006, the Group invested in broadening its sales and marketing network in the PRC and prepared for launching new drugs under “Venturepharm” brand name. Simultaneously the Group invested in the promotion of Venturepharm’s products in the international market in order to achieve the target of promoting its image under competitive environment.

Patents

The Group submitted 73 patent applications since its establishment until 31 March 2006.

Prospects

The Directors believe that the ability to maintain a leading position in new drugs R&D and pharmaceutical development services in the PRC will be critical to the Group’s long term success.

Apart from broadening its client bases and improving its service level of CRS, the Group will put a great effort on investment in its sales and marketing network for launching of more new products under the Group’s brand name. This will improve the Group’s future profit margin and therefore contribute to the provision of promising return to the shareholders when the Group continues to commercialize its products from successful R&D results.

MOVEMENT OF SHAREHOLDERS' EQUITY

	Share capital	Share premium	Share-based payment reserve	Held-to-maturity investments reserve	Special reserve	Capital reserve	Statutory reserve	Statutory expansion fund	Retained earnings	Minority interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2005 (restated)	38,160	-	-	5,500	6,039	903	3,334	6,517	43,992	3,190	107,635
Dividend	-	-	-	-	-	-	-	-	-	-	-
Contribution from Minority shareholder	-	-	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	701	-	701
As at 1 March 2006	<u>38,160</u>	<u>-</u>	<u>-</u>	<u>5,500</u>	<u>6,039</u>	<u>903</u>	<u>3,334</u>	<u>6,517</u>	<u>44,693</u>	<u>3,190</u>	<u>108,336</u>
As at 1 January 2006	38,160	-	258	7,200	6,039	894	3,612	6,795	48,963	3,054	114,975
Dividend	-	-	-	-	-	-	-	-	-	-	-
Contribution from minority shareholder	-	-	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	827	-	827
As at 1 January 2006	<u>38,160</u>	<u>-</u>	<u>258</u>	<u>7,200</u>	<u>6,039</u>	<u>894</u>	<u>3,612</u>	<u>6,795</u>	<u>49,790</u>	<u>3,054</u>	<u>115,802</u>

DIRECTORS' INTEREST IN SECURITIES

As at 31 March 2006, 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	7,560,000	16,670,377	4.63
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% directly held by Mr. Guo Xia, and 44.94% 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 and 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 2006		Date of Grant	Exercise Price
	William Xia GUO	7,200,000		20 June 2003
William Xia GUO	360,000		2 March 2005	HK\$0.52

Options granted to Mr. William Xia GUO 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 remaining balance after 31 December 2005. These options will expire ten years after the date of grant. Mr. William Xia GUO has undertaken to the Stock Exchange that he will not exercise his 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

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 2006, 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 2006, 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	182,069,033	50.57

Note 1: Venturepharm Holdings Inc. is 47.63 per cent directly held by Mr. Guo Xia and 44.94 per cent Held by Mr. Guo Xia through Winsland Agents 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 interest of 16,310,377 shares comprising of 7,200,000 shares and 360,000 shares underlying the options granted to him under the Pre-IPO Share Option Scheme and Share Option Scheme respectively are beneficially owned by Mr. William Xia GUO.

Save as disclosed above, as at 31 March 2006, 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 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 2006, 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 2006 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 31.3.2006
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 remaining 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 2006, 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 2006 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 31.3.2006
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
			<hr style="width: 100%; border: 0.5px solid black;"/>
			4,042,000
			<hr style="width: 100%; border: 1.5px solid black;"/>

3. Share Option Scheme

Pursuant to the written resolutions by the shareholders of the Company on 23 May 2003, the Company adopted a new share option scheme.

As at 14 December 2005, options comprising a total of 1,098,000 underlying shares were granted. As at 31 December 2005, the options outstanding are 1,298,000 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 2006 are as follows:

Name of grantees	Period during which the options remain exercisable after the date of grant	Exercise price	Number of underlying shares under the option at 14.12.2005 and 31.3.2006
11 participants	10 years	HK\$0.45	1,098,000

COMPETING INTERESTS

As at 31 March 2006, 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.

CONTINGENT LIABILITIES

As at 31 March 2006, the Group did not have any contingent liabilities (2005: Nil).

CORPORATE GOVERNANCE

The Company applied the principles and fully complied with the Code Provision as set out in Appendix 15 of the GEM Listing Rules (“CG Code”) with certain deviations in respect of (1) the roles of Chairman and chief executive officer and (2) the remuneration committee.

(1) The roles of Chairman and Chief Executive Officer

The Chairman of the Board is responsible for the leadership and effective running of the Board, and ensures that all keys and appropriate issues are discussed by the Board in a timely and constructive manner. However, the Chief Executive Officer of the Company has not yet appointed. Currently, the day-to-day management of the Company’s business is handled by the executive directors and management, who take the responsibility to run the Group’s business and to implement the Group’s strategy so as to achieve the overall commercial objectives of the Company.

In order to comply with CG Code, the Directors will discuss the appointment of the Chief Executive Officer as soon as possible.

(2) The Remuneration Committee

Currently, the Remuneration Committee comprises the Chairman of the Board, Mr. William Xia Guo, a Non-executive Director, Mr. Feng Tao and an Independent Non-executive Director, Mr. Paul Contomichalos. Mr. Guo is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company’s policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

In order to comply with CG Code, the Directors have unanimously resolved that Mr. Wang Hong Bo be nominated for replacement of Mr. Feng Tao in the Remuneration Committee such that independent non-executive directors will comprise majority of the Remuneration Committee.

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 2006.

AUDIT COMMITTEE

The Company established an audit committee in July 2003 with written terms of reference in compliance with “A Guide for the formation of an Audit Committee” published by the HKICPA. 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, Mr. Paul Contomichalos and Mr. Wang Hong Bo. Mr. Wang Hong Bo is the chairman of the audit committee.

The audit committee has reviewed the unaudited first quarterly results for the three months ended 31 March 2006.

By Order of the Board

William Xia Guo

Chairman

Beijing, the PRC, 12 May 2006

The Board as at the date hereof comprises:

Executive Director:

Mr. William Xia Guo

Dr. Maria Xue Mei Song

Non-executive Director:

Dr. Feng Tao

Mr. Wu Xin

Dr. Nathan Xin Zhang

Independent Non-executive Director:

Mr. Wu Ming Yu

Mr. Paul Contomichalos

Mr. Wang Hong Bo