



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

(Incorporated in the Cayman Islands with Limited Liability) (Stock code: 8225)

(於開曼群島注冊成立之有限公司) (股份代號: 8225)



Interim Report  
中期報告 **2006**

## **INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2006**

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

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This report, for which the directors of Venturepharm Laboratories Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; (3) all opinions expressed in this report have been arrived at after due and careful consideration and founded on bases and assumptions that are fair and reasonable.



# 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 interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006, together with the comparative figures.

### FINANCIAL HIGHLIGHTS

1. The Group achieved a turnover of approximately RMB24,179,000, representing an approximately 50% increase compared with the turnover for the corresponding period of 2005.
2. The Group accomplished a net profit of approximately RMB6,324,000 for the six months ended 30 June 2006, representing an increase of approximately 83% compared with the net profit recorded in the corresponding period of 2005.
3. During the aforesaid period, the Group entered into 38 technology transfer and service contracts with total value of approximately RMB21,796,000 and 15 clinical research service contracts with total value of approximately RMB17,688,000 as at 30 June 2006.
4. Basic earning per share amounted to RMB1.76 cents for the six months ended 30 June 2006.
5. The Directors do not recommend payment of any interim dividend for the six months ended 30 June 2006.

\* *for identification only*

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the period ended 30 June 2006, the Group achieved a turnover of approximately RMB24,179,000 which represented an increase of 50% as compared with the turnover of the corresponding period in 2005. The revenue from Technology Transfer and contracted pharmaceutical development and clinical research services outsourced by customers (“CRS”) enjoyed strong momentum of growth.

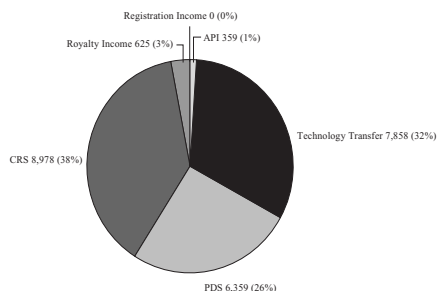
Set out below is a breakdown in turnover from six lines of services of the Group during the aforesaid period and corresponding growth rate from the same period last year:

	<b>Six months ended</b>		<b>Growth from the</b>
	<b>30 June</b>		<b>corresponding</b>
	<b>2006</b>	2005	<b>period last year</b>
	<b>RMB'000</b>	RMB'000	<b>%</b>
Technology Transfer	<b>7,858</b>	4,262	84%
Contracted pharmaceutical development and clinical research services associated with technology transfer (“PDS”)	<b>6,359</b>	6,382	0%
Contracted pharmaceutical development and clinical research services outsourced by customers (“CRS”)	<b>8,978</b>	4,564	97%
Royalty income	<b>625</b>	593	5%
Import registration services	<b>0</b>	171	-100%
Active pharmaceutical ingredient (“API”)	<b>359</b>	148	142%
	<b>24,179</b>	16,120	50%

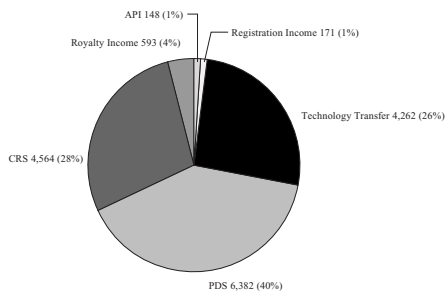
Turnover contribution from 6 lines of services of the Group:

Unit: '000/RMB

### Revenue Breakdown for 30 June 2006



### Revenue Breakdown for 30 June 2005



For the period ended 30 June 2006, the Group recorded a profit attributable to shareholders of approximately RMB6,324,000, representing an increase of 83% as compared to that of approximately RMB3,457,000 for the corresponding period in 2005.

## BUSINESS REVIEW

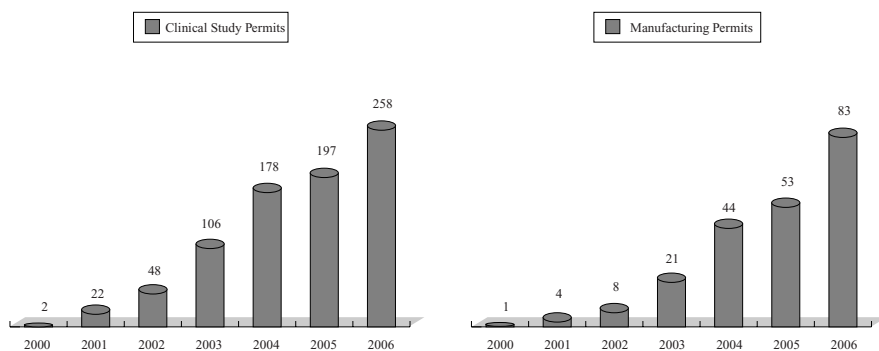
During the period, the Group continued to actively transform its business platform to be a full scale and integrated pharmaceutical enterprise and to emphasize on drug development, product commercialization and pipeline building.

### Research and Development

The Group's portfolio covers all major and high growth therapeutic areas such as endocrinology, CNS, cardiovascular disease, dermatology, cancer, AIDS, allergy, antibiotics, arthritis, GI and infectious diseases.

The Group's R&D strength still remained the leading position in the industry. The Group initiated 55 new projects in the first half year of 2006 and till now has 140 products under development. During the period, the State Food and Drug Administration ("SFDA") granted 30 new Clinical Study Permits ("CSP") and 12 new Manufacturing Permits ("MP") to the Group. The total number of CSPs has climbed to 258 and the total number of MPs climbed to 83.

The following graph sets out the total number of CSPs and MPs obtained during the past years:



### Sales and Marketing

During the six months ended 30 June 2006, the Group successfully signed 38 technology transfer and PDS contracts with total value of approximately RMB21,796,000, including approximately RMB8,087,000 for technology transfer, and entered into 15 CRS contracts amounting to total value of approximately RMB17,688,000, which represented 105% and 10% respective increases in term of contract value compared with the corresponding period in 2005.

Meanwhile, the Group continued to invest in building up its marketing capacity and sales network, and launched new drug products under Venturepharm (萬全) brand name into the PRC market.

### Patents

The Group continued to place great emphasis on the protection of intellectual property rights during the reporting period. Up to 30 June 2006, the Group had submitted 75 patent applications.

### PROSPECTS

In the reporting period, the Group has made substantial progress in establishing its capacities and improving performance in production, marketing/sales, and pharmaceutical services sectors.

The Group has successfully established its nationwide prescription drug marketing/sales network. The profit earning potential and market performance will continue to grow with introduction of new prescription products in several therapeutic fields into the domestic market.

The boom of CRS business in domestic and overseas market brings unprecedented opportunities for the company. While continuously improving service level and broaden international co-operation, CRS will definitely step into a rapid growth stage and lead the company to reach the goal of becoming the largest Clinical Research Organization in Asia.

## **DIVIDEND**

The Directors have not recommended payment of any interim dividend for the six months ended 30 June 2006.

## **SIGNIFICANT INVESTMENTS**

The Company invested its surplus fund through its principal bank in investment grade target redemption bond and such balance was RMB28,274,000 as at 30 June 2006.

## **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY AND ASSOCIATED COMPANIES**

No material acquisition nor material disposal of subsidiaries and associated companies were made by the Group during the reporting period.

## **CONTINGENT LIABILITIES**

As at 30 June 2006, the Group did not have any contingent liabilities.

## **CHARGE ON ASSETS**

As at 30 June 2006, the Group pledged its investment in securities of RMB28,274,000 as securities for the general banking facilities granted to the Group.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Other than those disclosed in the Company's prospectus dated 30 June 2003, the Group does not have any other plans for material investments or capital assets.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained sound financial position and prudent liquidity risk management by maintaining sufficient cash and marketable securities. The Group's current assets amounted to about RMB87,939,000 of which approximately RMB8,314,000 was cash and bank deposits. The gearing ratio as measured by bank and other borrowings over total assets is 6%.

## **CAPITAL STRUCTURE**

There has not been any change to the capital structure of the Company since that date.

## **FOREIGN EXCHANGE EXPOSURE**

During the period under review, the Group's transactions were substantially denominated in Renminbi ("RMB") and about 49 per cent of the cash and bank deposits were in either Hong Kong or United States dollars. Since RMB is pegged to both the Hong Kong and United State dollars, the Board considers that the potential foreign exchange exposure of the Group is limited. The Group closely monitors its foreign currency exposure from time to time and will engage appropriate hedging activities should need arise.

## **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 six months ended 30 June 2006.



## DIRECTORS' INTEREST IN SECURITIES

As at 30 June 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% 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:

<b>Name</b>	<b>Number of shares in which interested under physically settled equity derivatives as at 20 June 2003 and 30 June 2006</b>	<b>Date of Grant</b>	<b>Exercise Price</b>
William Xia GUO	7,200,000	20 June 2003	HK\$0.32
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 be 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. GUO has also 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

<b>Name</b>	<b>Type of Interest</b>	<b>Capacity</b>	<b>Capital contribution on a Sino-foreign co-operative joint venture</b>	<b>Approximate percentage of interest of shareholding in joint venture</b>
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 Xue-mei SONG.

Save as disclosed above, as at 30 June 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 30 June 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 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 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 30 June 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 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 30 June 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 30 June 2006 are as follows:

<b>Name of grantees</b>	<b>Period during which the options remain exercisable after the date of grant</b>	<b>Exercise price per shares</b>	<b>Number of underlying shares under the option as at 20.6.2003 and 30.6.2006</b>
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 new share option scheme.

As at 2 March 2005, options comprising a total of 4,042,000 underlying shares were granted. As at 30 June 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 30 June 2006 are as follows:

<b>Name of grantees</b>	<b>Period during which the options remain exercisable after the date of grant</b>	<b>Exercise price per shares</b>	<b>Number of underlying shares under the option at 2.3.2005 and 30.6.2006</b>
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

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 30 June 2006, 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 30 June 2006 are as follows:

<b>Name of grantees</b>	<b>Period during which the options remain exercisable after the date of grant</b>	<b>Exercise price per shares</b>	<b>Number of underlying shares under the option at 14.12.2005 and 30.6.2006</b>
11 participants	10 years	HK\$0.45	1,098,000

## **COMPETING INTERESTS**

As at 30 June 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.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed shares during the six months ended 30 June 2006.

## **CORPORATE GOVERNANCE**

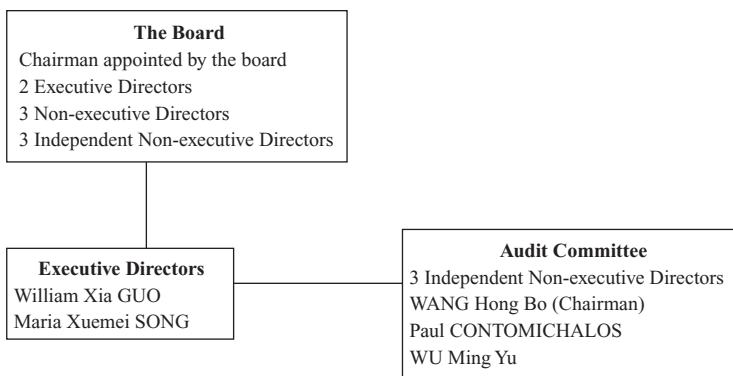
### **(1) Corporate governance practices**

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 save as disclosed in respect of (1) the roles of chairman and chief executive officer and (2) the remuneration committee. The following summarizes the Company's corporate governance practices and explains deviations, if any, from the CG Code.

### **(2) Directors' securities transactions**

The Company has adopted the Company Code for Securities Transactions by Directors of Listed Issuers in compliance with the provisions that are set out in the GEM Listing Rules as its own code of conduct for Directors' dealings of securities since 29 June 2005. Specific enquiries have been made with all Directors and the Directors confirmed that they have complied with the required standard set out in the Company Code in the period from 1 January 2006 to 30 June 2006.

### (3) Board of directors



Note:

- a) The Non-Executive Directors of the Company during the period and up to the date of this report are:  
  
FENG Tao  
WU Xin  
Nathan Xin ZHANG
- b) Apart from Nathan Xin ZHANG and WANG Hong Bo, which do not have a service contract, each of the directors has entered into a service contract with the Company. Each of the executive directors and non-executive directors was appointed as director of the Company respectively subject to termination in certain circumstances as stipulated in the relevant service contracts, if applicable.
- c) Save as disclosed above, no directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Board of Directors (“Board”) of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The Board of the Company comprises a total of eight Directors, with two Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors and one of them has appropriate professional qualifications. Reviews are made regularly of the Board composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. All Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of annual budgets and business plans; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. All Directors have been consulted about any matters proposed for inclusion in the agenda. With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Regular Board meetings of the year are scheduled in advance to give all Directors an opportunity to attend. Four regular Board meetings at approximately quarterly intervals have been scheduled for 2006. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association.

Board papers are circulated not less than seven days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Minutes of the board meetings are kept by the Company Secretary and are open for inspection by Directors.

During the six months ended 30 June 2006, the Board met and held two meetings in March and May 2006. The attendance records of the aforementioned two Board meetings are set out below:

**Attendance of individual Directors at board meeting during the period**

	<b>Attendance No</b>	<b>Attendance Rate</b>
<i>Executive Directors</i>		
William Xia GUO	2/2	100%
Maria Xuemei SONG	2/2	100%
<i>Non-executive Directors</i>		
FENG Tao	1/2	50%
WU Xin	2/2	100%
Nathan Xin ZHANG	1/2	50%
<i>Independent Non-executive Directors</i>		
WANG Hongbo	2/2	100%
Paul CONTOMCHALOS	2/2	100%
WU Ming Yu	2/2	100%



**(4) Chairman and chief executive officer**

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 of the Company has not yet been appointed. Currently, the day-to-day management of the Company's business is handled by the executive directors and senior 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 a chief executive Officer as soon as possible.

**(5) Remuneration of directors**

Currently, the Remuneration Committee comprises the Chairman of the Board, Mr. William Xia GUO (Chairman of the Remuneration Committee), one Non-executive Director Mr. FENG Tao and an Independent Non-executive Director, Mr. Paul CONTOMCHALOS.

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.

**(6) Nomination of directors**

In accordance with the Company's Articles of Association, nomination of directors is determined by the Board with approvals by the shareholders in the general meeting.

**(7) Auditors' remuneration**

The annual general meeting approved the appointment of HLB Hodgson Impey Cheng as the new auditor of the Company and that the Board is and be hereby authorized to fix auditor's remuneration. Non-audit services was not provided by the auditor to the Company during the six months ended 30 June 2006.

**(8) Audit committee**

The audit committee was established with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports 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. WANG Hong Bo, Mr. Paul CONTOMICHALOS and Mr. WU Ming Yu. Mr. WANG Hong Bo is the chairman of the audit committee.

The audit committee hold meetings on quarterly basis. During the six months ended 30 June 2006, the audit committee held two meetings during the period and reviewed the Group's quarterly and interim financial results . The attendance records of the aforementioned two audit committee meetings are set out below:

**Attendance of member at audit committee during the period**

<b>Member</b>	<b>Attendance No</b>	<b>Attendance Rate</b>
WANG Hong Bo	2/2	100%
Paul CONTOMICHALOS	2/2	100%
WU Ming Yu	2/2	100%

**(9) Directors' acknowledgement of their responsibility for the Financial Statements**

The Directors acknowledge that they take full responsibility in the preparation of the financial statements.

## CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2006	2005	2006	2005
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	<b>16,105</b>	8,632	<b>24,179</b>	16,120
Cost of sales		<b>(6,864)</b>	(3,485)	<b>(11,400)</b>	(7,491)
Gross profit		<u>9,241</u>	<u>5,147</u>	<u>12,779</u>	<u>8,629</u>
Other operating income		<b>1,259</b>	182	<b>1,279</b>	207
Administrative expenses		<b>(4,754)</b>	(2,196)	<b>(7,410)</b>	(4,888)
Profit before taxation	5	<u>5,746</u>	<u>3,133</u>	<u>6,648</u>	<u>3,948</u>
Taxation	6	<u>(272)</u>	<u>(390)</u>	<u>(378)</u>	<u>(525)</u>
Profit after taxation before minority interest		<b>5,474</b>	2,743	<b>6,270</b>	3,423
Minority interests		<u>23</u>	<u>13</u>	<u>54</u>	<u>34</u>
Profit attributable to shareholders		<u><b>5,497</b></u>	<u>2,756</u>	<u><b>6,324</b></u>	<u>3,457</u>
Earnings per share (cent)	8				
– basic		<b>1.53</b>	0.77	<b>1.76</b>	0.96
– diluted		<b>1.51</b>	0.76	<b>1.74</b>	0.95

## CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment	9	5,844	6,561
Held-to-maturity investment		28,274	28,275
Investment in associates	10	4,047	4,047
Unlisted Investment	11	9,396	9,396
Intangible assets	12	2,450	2,600
		<u>50,011</u>	<u>50,879</u>
<b>Current assets</b>			
Work-in-progress		46,446	37,746
Trade receivables	13	17,024	9,483
Other receivables, deposits and prepayments		15,148	19,437
Amounts due from related companies	14	1,007	1,759
Pledged bank deposits		0	0
Bank balances and cash		8,314	9,161
		<u>87,939</u>	<u>77,586</u>
<b>Current liabilities</b>			
Trade and other payables		1,748	5,472
Receipt in advance		6,419	4,262
Dividend payable		53	54
Interest-bearing borrowings		6,839	3,000
Tax payable		1,519	702
		<u>16,578</u>	<u>13,490</u>
<b>Net current assets</b>		<u>71,361</u>	<u>64,096</u>
<b>Total assets less current liabilities</b>		<u>121,372</u>	<u>114,975</u>
<b>Minority interests</b>		<u>3,127</u>	<u>3,054</u>
<b>Net assets</b>		<u>118,245</u>	<u>111,921</u>
<b>Equity</b>			
Share capital		38,160	38,160
Reserves		80,085	73,761
		<u>118,245</u>	<u>111,921</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Net cash used in operating activities	(4,101)	246
Net cash from/(used in) investing activities	(427)	(135)
Net cash from/(used in) financing activities	3,680	(34)
Net increase (decrease) in cash and cash equivalents	(847)	77
Cash and cash equivalents at beginning of the period	<u>9,161</u>	<u>17,970</u>
Cash and cash equivalents at end of the period	<u><u>8,314</u></u>	<u><u>18,047</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share payment reserve	Held-to- maturity investments reserve	Special reserve	Capital reserve	Statutory reserve	Statutory enterprise expansion fund	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005 (restated)	38,160	-	5,500	6,039	903	3,334	6,517	43,992	104,445
Effect on adopting new accounting policy	-	258	7,200	-	-	-	-	-	7,458
Reversal of convertible bond reserve upon disposal	-	-	(5,500)	-	-	-	-	-	(5,500)
Transfer to reserve	-	-	-	-	(9)	278	278	(673)	(126)
Profit for the year	-	-	-	-	-	-	-	5,644	5,644
As at 31 December 2005	<u>38,160</u>	<u>258</u>	<u>7,200</u>	<u>6,039</u>	<u>894</u>	<u>3,612</u>	<u>6,795</u>	<u>48,963</u>	<u>111,921</u>
Dividend	-	-	-	-	-	-	-	-	-
Contribution from minority shareholder	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	6,324	6,324
At 30 June 2006	<u><u>38,160</u></u>	<u><u>258</u></u>	<u><u>7,200</u></u>	<u><u>6,039</u></u>	<u><u>894</u></u>	<u><u>3,612</u></u>	<u><u>6,795</u></u>	<u><u>55,287</u></u>	<u><u>118,245</u></u>

## 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 Reorganization").

### 2. Accounting policies and basis of preparation

The unaudited condensed financial statements have been prepared in accordance with 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 30 June 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.

### 3. Turnover and revenue

The Group is principally engaged in the research, development and commercialization of drug products. After the transformation of 2005, the turnover of the Group has increased dramatically in 2006. Revenues recognized during the periods were as follows:

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover				
– Transfer of technology for new drug and new drug development	5,501	2,552	7,858	4,262
– Contracted pharmaceutical development and clinical research services associated with technology transfer	5,142	2,963	6,359	6,382
– Contracted pharmaceutical development and clinical research services outsourced by customers	4,988	2,682	8,978	4,564
– Import registration services	0	1	0	171
– Royalty income	371	329	625	593
– Active pharmaceutical ingredient	103	105	359	148
	<b>16,105</b>	<b>8,632</b>	<b>24,179</b>	<b>16,120</b>

#### 4. Segment information

No geographical segment analysis is presented as all assets and operations of the Group for the periods are located in the PRC.

No business segment analysis is presented as the operations of the Group for the periods are principally related to pharmaceutical research and development, registration, application and testing.

#### 5. Profit before taxation

Profit before taxation is arrived at after charging (crediting) the following items:

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Depreciation	221	225	443	462
Less: amount capitalized in work-in-progress	0	(158)	0	(323)
	221	67	443	139
Provision against the receivables	180	520	981	582
Amortization of intangible assets	90	88	181	168
Finance cost	143	0	287	0
	<u>143</u>	<u>0</u>	<u>287</u>	<u>0</u>

#### 6. Taxation

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Company and subsidiaries				
PRC income tax	272	390	378	525
	<u>272</u>	<u>390</u>	<u>378</u>	<u>525</u>

No Hong Kong Profits tax has been provided for, as the Group had no estimated assessable profits in Hong Kong for the six months ended 30 June 2006 (2005: nil). The Company's subsidiaries are subject to PRC income tax on their assessable profits.

#### 7. Dividends

The board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).



## 8. Earnings per share

The calculation of basic earnings per share for the three and six months ended 30 June 2006 is based on the unaudited net profit of approximately RMB6,324,000 and RMB5,497,000 respectively (2005: approximately RMB3,457,000 and RMB2,756,000 respectively), and the weighted average number of approximately 360,000,000 ordinary shares in issue during the period (2005: 360,000,000).

The calculation of the diluted earnings per share for the three months and six months ended 30 June 2006 is based on the unaudited net profit of approximately RMB6,324,000 and RMB5,497,000 respectively (2005: approximately RMB3,457,000 and RMB2,756,000 respectively), and the weighted average of approximately 363,540,000 shares (2005: approximately 363,635,815) (after adjusting for the effect of the outstanding dilutive options of 3,540,000 under the share option schemes of the Company).

## 9. Property, plant and equipment

During the period, the Group acquired property, plant and equipment with a carrying value of RMB30,940 (2005: RMB402,944).

## 10. Investment in associate

	The Group	
	2006 RMB'000	2005 RMB'000
As at 1 January	4,047	2,235
Additions in investment cost	–	2,000
Share of associates' results		
– loss before taxation	–	(188)
– taxation	–	–
– minority interest	–	–
	<u>4,047</u>	<u>4,047</u>

Details of the Group's associate at 30 June 2006, which is held indirectly by the Company, are as follows:

Name of associate	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Profit/ (loss) RMB'000	Interest held
Zhejiang Dankong Venturepharm Co. Ltd	4,966	–	–	–	45%
海南盛科天然药物 研究院有限公司	2,147	115	–	0	40%
NovaDerm Inc.	<u>2,000</u>	<u>2,000</u>	<u>–</u>	<u>–</u>	<u>40%</u>

## 11. Unlisted Investment

	The Group	
	2006	2005
	RMB'000	RMB'000
Unlisted investment		
Outside Hong Kong	<u>9,036</u>	<u>9,036</u>

19% of shares in Hainan Pioneer Pharmaceutical Co., Ltd., (海南先鋒制藥有限公司) were acquired in January 2004.

## 12. Intangible assets

The intangible assets of the Group represent capitalized development cost for drug products for own commercialization and it is amortized over its estimated useful life of 5 years.

## 13. Trade receivables

Details of the ageing analysis are as follows:

	Unaudited	Audited
	30 June	31 December
	2006	2005
	RMB'000	RMB'000
0 to 90 days	14,573	6,714
91 to 180 days	443	1,546
181 to 365 days	<u>2,008</u>	<u>1,223</u>
	<u>17,024</u>	<u>9,483</u>

#### 14. Connected and related party transactions

Details of amounts due from related companies are as follows:

Name of company	Unaudited	Audited
	30 June 2006 RMB'000	31 December 2005 RMB'000
Sanmenxia Sinoway Pharmaceutical Co., Ltd ("Sinoway Pharmaceutical")	1,007	1,496
Venturepharm Inc. ("VP Inc.")	<u>0</u>	<u>263</u>
	<u>1,007</u>	<u>1,759</u>

Note: (1) Both companies are the subsidiaries of the Company's shareholder.

(2) The amounts are unsecured, interest-free and repayable on demand.

By Order of the Board

**Guo Xia**

*Chairman*

Beijing, the PRC, 10 August 2006

*Executive Directors:*

William Xia GUO

Maria Xuemei SONG

*Non-Executive Directors:*

FENG Tao

WU Xin

Nathan Xin ZHANG

*Independent Non-Executive Directors:*

WANG Hong Bo

Paul CONTOMICHALOS

WU Ming Yu

[www.venturepharm.com](http://www.venturepharm.com)

